ESSENTIALS
OF
INDIAN ECONOMICS

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A. MUKHERJEE & CO. : CALCUTTA

ESSENTIALS OF

INDIAN ECONOMICS

BY

A Gold Medallist

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CONTENTS

CHAPTER I

India's Physical Environment and Natural Resources.

Q. 1. Give a Brief account of India's mineral resources. B. Com. 1939, 1944. 1935,

Give a brief account of India's mineral production. B. Com. 1937.

Ans. India's mineral resources can be classified in three groups : (1) Non-metallic Minerals, (2) Metallic Minerals and (3) Fuels.

(1) Non-metallic Minerals

Examples of non-metallic minerals are common salt, limestone, glass-making minerals, sulphur, mica, etc.

Common salt is the most important non-metallic mineral. It is used in food and in the manufacture of certain important chemicals such as washing soda, caustic soda, etc. The most important source of salt is the Khewra mines in the Salt-Range of the Punjab. High quality salt is available there. The production from these mines amounts to 1.5 lakh tons annually. The next sources of salt are the Sambhar Lake and other lakes in Rajputana. The production from those lakes is about 2.5 lakh tons annually. Salt is also produced in the coastal regions of Bombay and Madras by the evaporation of sea-water through the action of the sun's rays. The total production of salt is about 15

lakh tons. Salt is as yet little used in India in the production of chemicals. With the development of the chemical industries in India, the demand for salt is likely to increase. The Chemical Industry based on salt has made a good start in India during the present war Other sodium salts found in India are Sodium Carbonate in Sind and Sodium Sulphate in Jodhpur.

Limestone is used for making lime and cement, soda ash and caustic soda. It is also used in the sugar industry and as building stone. Total production of limestone in India is a little less than 5 million tons a year. It is found in the Salt-Range in the Punjab, Himalayan areas, in U. P., C P., Central India, Bihar and Madras.

Mica is a very important non-metallic mineral The annual production of mica is about 10,000 tons. It is found in Hazaribagh and Gaya in Bihar and in the Nellore district of Madras. India is the leading producer of mica in the world but almost the whole of it is exported to Europe and America. Mica is used in the electrical industries. In combination with shellac, it serves as the basis of the micanite industry.

Refractories, such as fire-clay and magnesite, are found in India. Fire-clay is found in the coal-mining areas and magnesite occurs in the Salem district of Madras.

China-clay occurs in India in substantial quantities and is found mostly in Bihar. It is used in the Ceramic industry and for sizing paper and cloth. India produces about 17,000 tons of China-clay per year.

Among other non-metallic minerals found in India, mention may be made of Gypsum, Saltpetre, Monazite Phosphates, Sulphur, Graphite and Diamonds.

Gypsum is found in the Salt-Range in the Punjab and in Bikaner and Jodhpur. It is used for making Plaster-of-Paris. It ~~can be~~ is used for manufacturing fertilisers and sulphuric acid. Saltpetre is used for making fertilisers and gunpowder. It is found in the form of effervescence in many parts of India. Monazite is found in Travancore. It is used in the manufacture of gas mantels. Phosphate is found in small quantities in India. It is important as fertiliser. Sulphur is extremely important for the preparation of sulphuric acid which is an essential key industry. A small sulphur deposit has been discovered in Baluchistan. The annual production of sulphur is about 25,000 tons. Graphite is found in the Vizagapatam hill tracts. It is used for the manufacture of pencils and crucibles. India was once a great producer of diamonds but now the annual output is small. Diamonds were once produced in Southern India. Now most of the production takes place in C. P.

2. Metallic Minerals

Iron is the most important metallic mineral. The richest iron ore fields are found in Singhbhum in Bihar, in Mayurbhanj, Bonai and Keonjhar States in Orissa and in Chanda and Drug district in C. P. The total amount of pig-iron manufactured in India amounts to about 15 lakh tons. The iron industry is concentrated

in Bihar because both coal and iron are available there. In C. P. there is plenty of iron but little coal. Blast furnaces for producing steel are operating in Jamshedpur, Asansol and Mysore. India has inexhaustible resources of iron ore. There are about 4,000 million tons of high-grade iron ore and twice or thrice that quantity of low grade ore.

Copper is mined in Singhbhum district. There are also copper deposits in Sikkim, Garhwal and Almora. The annual production of copper is about 7,000 tons.

Aluminium is extracted from bauxite. A considerable amount of bauxite occurs in Ranchi and Palamau districts in Bihar, Balaghat district and near Katni in C. P. and in Bombay. Aluminium is a very important mineral which is used in making aeroplanes, utensils, etc. With cheap electric power India could produce a lot of aluminium. At present very little aluminium is produced in India. There are two aluminium smelting factories, one near Asansol and the other in Travancore.

India is very rich in manganese ore which is used in making alloy steel. Along with Russia and Brazil, she is one of the leading producers of manganese. Manganese deposits occur in Bombay, Bhandara and Balaghat districts in C. P., Singhbhum in Bihar, Gangpur, Keonjhar and Bonai States in Orissa and Vizagapatam in Madras. The best ores are found in C. P. The annual production ranges between half to three quarters million tons per annum. A large

part of the manganese production is exported to foreign countries

Chromite is the source of Chromium which is used in dyeing, tanning, chrome plating and in making stainless steel. Chromite occurs in Mysore, Baluchistan and Singhbhum district in Bihar. The annual output is about 40,000 tons.

Gold mining is done only in the Kolar Gold Fields of Mysore. The annual production is about 22,000 ounces.

Lead and Zinc are not found in India proper but in Burma Tin and Nickel deposits are unknown in India. Only small quantities of Tungsten, Cobalt and Molybdenum are found.

3. Fuels

Coal is the most important fuel mineral available in India. There are two kinds of coal fields, (1) the Gondwana Coal Fields extending over Bengal, Bihar and the C. P. and (2) the Tertiary Coal Fields occurring in the Punjab and Assam. Tertiary coal is of inferior quality. The most important coal fields exist in Jharia, Raniganj, Bokaro and Giridhi. The best type of coking coal is found in Jharia and Bokaro. The present annual production of coal amounts to 25 million tons. Bengal and Bihar, between them, produce 80 per cent of the amount. The concentration of coal in these two eastern provinces of India is considered to be a defect of the industrial situation of India. The total reserves of coal in India are almost inexhaustible. But reserves of good quality coal amount to about 5,000 million tons;

of these the reserves of coking coal amount to about 1,500 million tons only. Coal is used in India as power in the Railways and in industries ; it is also used for metallurgical purposes and for domestic heating. In India coking coal is used unnecessarily for producing steam and for heating purposes. This is a sheer waste of our limited reserves of coking coal because such work can be done equally well by coal of inferior quality. In an industrially developed India, coal can be used to produce coal tar products such as Benzene, Tolulene, dyestuffs, etc., synthetic petrol and synthetic fertilisers. Coal can also be used as a source of cheap electric power and for manufacturing producers' gas.

India is poor in liquid fuels, e.g petroleum. The Indian oil fields are found in Upper Assam (viz. Digboi fields) and in the Punjab (viz. Attock fields) India produces only 0·1 per cent of the total world production of oils. India is a very large importer of oil fuels such as petrol and kerosene. It is necessary in India to manufacture synthetic petrol out of coal and to produce power alcohol out of molasses for mixture with petrol.

Q. 2 Enumerate the principal agricultural products of India and describe their commercial importance. Cal. B. Com. '31, '32 '36, Nag. '39

State the regional distribution of the important commercial crops in India Indicate briefly the importance of such crops in the foreign trade of India. Cal. B. A. '27, '30 : Punj. '34 ; Agra '42.

1. Food Crops

Ans. *1. Rice* : Rice is the staple food of the Indian population. It is the most important crop in India and covers 30 per cent of India's cropped area In 1942-43 the total area under rice cultivation was 74.9 million acres and the total output was 24.5 million tons. Rice grows best on low lands, liable to floods during the period of growth of the plant. Alluvial soil is most favourable to the cultivation of rice. Rice cultivation requires a temperature of not less than 75 degrees and rainfall of not less than 40 inches. A plentiful supply of water is the principal factor in rice cultivation. Hence the monsoon greatly influences rice production in India. The principal rice growing areas are Bengal, Madras, Bihar, Orissa, Assam and the United Provinces. India is the second largest rice-producing country in the world. It is mainly consumed inside India. Hardly 1 per cent of the total production is exported abroad

2. Wheat : Wheat is the staple food of the people of Northern India. Wheat grows best in light clay soils. But the climate is more important than soil in the cultivation of wheat. The weather must be moist and cool when the wheat plant is growing but later it requires warm and bright weather with intervals of rain Wheat is a winter crop and grows in temperate climate with a comparatively dry soil. The wheat lands in India are found in the Punjab, U.P., Bombay, Sind, Central Provinces and Central India. The total area under wheat was 34.1 million acres in 1942-43 and the total yield was 10.9 million tons. About 3 per cent of the annual production

is now exported. India now imports wheat largely from Australia.

3. *Millets*: Millet is extensively used as food by the agricultural population of Madras, Bombay and Hyderabad. There are two varieties of millets—jowar and bajra. The area under millet cultivation is about 36 million acres and the annual production is about 7 million tons. Little rainfall is needed for the cultivation of millets. Millets are grown in Bombay, Madras, Hyderabad, Rajputana and the Punjab.

4. *Barley and Maize*: Like wheat, barley is a winter crop and grows mainly in U P., Bihar and the Punjab. India grows nearly 5 per cent of the world's barley crop. It is mainly consumed in India. Maize is grown all over India but chiefly in Northern India. The total area under maize cultivation is 6.5 million acres and the annual production is about 2 million tons.

5 *Sugarcane*: Sugarcane requires plenty of water and a warm climate. The soil must be well-drained and must contain lime and salt. The most important cane-growing tracts are the U.P, Bihar, the Punjab and Bengal. India is the largest producer in the world of both sugar and sugarcane. The protection given to the sugar industry in 1931 has given an immense encouragement to the sugar industry. The average yield per acre in India is low; it is one sixth that of Java. In 1943-44, the area under sugarcane was about 4 million acres and the total yield in terms of raw sugar was about 5 million tons. Improved varieties of sugarcane are now being extensively cultivated in India.

2. Commercial Crops

The commercial crops in India are divided into three groups :—(*a*) Fibres, (*b*) Oilseeds and (*c*) Drugs and Beverages.

(a) Fibres

1. Cotton : Cotton is the most important commercial crop in India. Cotton grows in a warm and equable climate. As a rule, it is a dry region crop though it can grow also in the deltaic region of Bengal The best soil for cotton cultivation is the regur or black cotton soil found in the Deccan. The most important cotton-growing regions in India are Bombay, C.P., Behar, the Punjab and Madras. In 1941-42, the area under cotton cultivation was 24 million acres and the total yield of cotton was 61 lakh bales. Most of the cotton grown in India is of the short staple variety but recently American long staple cotton is being increasingly cultivated. Before the present war, cotton figured prominently in our export trade. Japan was the principal country to which it was exported, taking about 60% of our total exports. The war with Japan caused a great crisis in cotton cultivation in India. India had a large cotton surplus which could not be exported. Hence steps had to be taken to restrict cotton cultivation and grow food crops on cotton lands. Besides, the consumption of Indian cotton in the cotton mills of India increased substantially. At the present moment almost the whole of the cotton grown in India is consumed in the Indian mills.

2. Jute : Jute is an important bast fibre. India is

the sole producer of jute in the world. It is grown mainly in the Ganges-Brahmaputra delta in Bengal and Assam and in small quantities in Bihar and Orissa. Bengal grows more than 80 per cent of the Indian jute. It grows in a hot and damp climate and requires a clayey and sandy soil It is an exhausting crop and grows without manure in the rich alluvial soil of Bengal. The total area under cultivation in 1941-42 was 21.6 million acres and the total production was 55 lakh bales. In normal years, jute is very largely exported. The principal buyer is U.K. and next come U.S.A., France, Italy, Japan and Germany. As the demand for jute is subject to great fluctuations, the Government have introduced a scheme of compulsory restriction of jute cultivation in order to equate supply and demand. But the Government have not shown conspicuous ability and success in forecasting the demand for jute.

(b). Oilseeds

Linseed, groundnut and rape or castor are the three principal oilseeds grown in India. Linseed is grown principally in the C.P., Bihar, Orissa, U.P., Bombay and Bengal. Groundnut is grown principally in Madras. Bombay and Hyderabad. Madras is the leading producer of groundnut. Rape is grown chiefly in the U.P, Bengal, the Punjab, Bihar and Orissa. U.P. is the leading producer of rape-seed. Sesamum or til is grown extensively in Bombay, Madras and the C.P. A large quantity of oilseeds is exported each year to foreign countries, mainly to the U.K. and the European continent. The

total exports amounted to 740,000 tons in 1941-42. India does not make proper use of her oilseed resources. During the present war a good beginning has been made to start an oilcrushing industry in India and to utilise Indian vegetable oils in manufacturing.

(c). Drugs and Beverages

1. Tea: India is the largest producer of tea in the world with the possible exception of China. Tea is generally grown on hillsides. It requires a deep, fertile, well-drained soil and a high temperature. Bengal and Assam are the chief tea-growing regions in India. Recently South India has come into prominence In 1941-42, the total area under tea was 834,000 acres and the total production was 500 million lbs. More than 75% of the tea produced is exported to foreign countries, mainly to U.K., France, U.S.A. and countries of the British empire. The export of Indian tea is regulated under the International Tea Restriction Scheme.

2. Coffee: It is principally grown in Mysore, Madras, Cochin and Travancore. It is mainly exported to the U.K. and France. The average annual production is about 35 million lbs.

3. Tobacco: India is the second largest tobacco-producing country in the world. It can grow in a variety of climates and is thus cultivated all over India. The principal tobacco-producing regions in India are Bengal, Madras, Bihar and Bombay. The average annual production is about 6 lakh tons. Tobacco is principally consumed within India.

passes towards the south-east and blowing over the Bay of Bengal, where it gathers moisture, brings rains to Madras and Ceylon. This is called the north-east monsoon

Rainfall in India is irregular, precarious and unevenly distributed. The monsoon is capricious ; it does not break out at the same time each year. The monsoon may be early or late. In the same region, the monsoon may not give the same rain every year. This accounts for the uncertainty of the rainfall in India. Then again the position of the mountains and the topography of India make the monsoons blow in certain definite directions This is the reason why certain regions get abundant rainfall and other regions little or no rainfall. Sind is rainless while the Cherapunji gets the heaviest rainfall in the world, amounting to 700 inches.

According to the degree of rainfall, India may be divided into three classes of areas : (1) areas of certain rainfall getting not less than 40 to 50 inches of rain per annum, e.g. Assam, Bengal and the Western Ghats : (2) areas of precarious rainfall getting from 10 to 40 inches per annum, e.g. Bombay, Deccan, Ajmere, Udaipur ; (3) areas of drought or no rainfall where rainfall is less than 10 inches, e.g. Sind and western Rajputana.

Economic effects of the Monsoons in India : India is predominantly an agricultural country. To an agriculturist, water is more valuable than gold. Indian soils are dry and most Indian crops require abundant, at least sufficient, supply of water. Where there are no

irrigation works, the agriculturist gets his water supply entirely from the monsoon. In South India most of the rivers are rain-fed. Thus the irrigation canals in Peninsular India get their water indirectly from the monsoons. Hence the importance of the monsoons to India can easily be imagined The crops grown in the different regions of India and the methods of agriculture pursued are governed chiefly by the amount of rainfall secured by them respectively. Indian economy is largely determined not by the will of man but by the favours and frowns of Nature. This has introduced an element of uncertainty into the Indian economic life

If the monsoon fails over a wide area, then the *result will be famine The famine problem is largely* the consequence of the vagaries of the monsoon A failure of rains and a failure of crops are attended with dire consequences in India As the incomes of the agriculturists fall, their capacity to buy the goods and services of other classes of people is diminished. Lawyers, doctors and even teachers find their incomes reduced. Products of industry do not find a ready market. The supply of raw materials to industry also suffers. As many agricultural commodities figure prominently in our export trade, a failure of the monsoon affects unfavourably the volume and the balance of India's foreign trade. Due to the fall in the national income, the revenues of the Government undergo a sharp decline and the Government may, in addition, be faced with extra-ordinary expenditure on account of famine relief. So great is the dependence of Government

revenues on the monsoons that the Indian budget is said to be a gamble in rains.

The excessive dependence on India on the caprices of the monsoons may be mitigated by the construction of irrigation canals, flood control, afforestation and diversification of Indian industries.

Q. 4. Discuss the importance of forests in the economic life of India. Cal B A. '29, '33 ; B.Com. '38 ; Dac 43 ; Punj '33 ; Mad. '35, '38.

Ans. India is very rich in forests They cover more than one-fifth of the area of the country. There are many types of forests. The differences in the character of forests are due to variations in climate, soil, elevation of the lands, etc Roughly speaking, there are five types of forests in India.

1. Arid country forests occurring in Sind, Rajputana, Baluchistan and the Punjab. The main tree is babul. Rainfall is extremely scarce in these regions.

2. Deciduous forests occur in the Sub-Himalayan tract and in Peninsular India. Sal, teak and other important trees are found there. Rainfall is not abundant in these regions.

3. Evergreen forests occur in areas where rainfall is heavy, e g. in the west coast of India. The trees are bamboos, palm, fern and India-rubber.

4. The hill forests of deodars, firs, oak and pines found in the elevated mountain regions of north-western and eastern Himalayas and in Assam.

5. Littoral forests are found on the seacoasts and

regions washed by tidal waves. The trees belong to the mangrove family.

The economic importance of forests in India cannot be exaggerated. (1) They supply timber and firewood which constitute their major produce. The annual production of timber in India is about 220 million cubic feet. The timber is of many varieties, e.g. deodar, sal, teak, rosewood and mahogany. (2) They supply many minor products which are important raw materials of various industries, e.g. lac, tanning materials, turpentine, resin, and essential oils. (3) Forests supply bamboo and sabai grass to the paper industry and wood to the match industry and to the boat-making industry. (4) Forests give employment to a variety of people such as wood-cutters, sawyers, carriers, timber merchants and carpenters. (5) Forests offer grazing grounds for cattle and supply fodder to them. (6) Forests are an important source of revenue to the Government.

Forests exercise a great influence on the climate and the soil. (1) They increase the humidity of the air and cause greater rainfall. (2) They regulate the flow of water and thus prevent floods and mitigate the erosion of the soil. (3) They increase the fertility of the soil. (4) They reduce the velocity of the storms and thus protect adjoining crops The preservation of forests is thus needed as a protection against floods and famines.

In a circular issued by the Government of India in 1894, the forests were broadly classified under four heads : (1) forests the preservation of which is essential on climatic or physical grounds ; (2) forests which afford

a supply of valuable timbers for commercial purposes; (3) minor forests which produce only inferior sorts of timber and (4) pastures and grazing grounds.

The forest department of the Government of India classifies the notified forest area into three groups: (1) Reserved, (2) Protected and (3) Unclassed. In the reserved forests, the public have no rights of use except those which are permitted. In the protected forests, the public have large customary rights of use which are, however, subject to certain restrictions. In the unclassified forests, the Government exercises little interference except in the matter of certain reserved trees.

In India the Government control of the forests is often deeply resented by the public who desire to use the forests as grazing grounds and for gathering fuel. While the Government should no doubt respect the customary rights of the people and offer cheap and adequate facilities to the poor for grazing their cattle and securing necessary fuel, the preservation of forests by the state is needed in the national interests of India, both present and future. Grass cutting should be encouraged as an alternative to grazing. The railway rates for the transportation of fodder and timber should be lowered. Predatory deforestation should be prevented as it is one of the potent causes of floods and famines. Afforestation should be taken in hand in the needed areas. Research should be undertaken for the preservation of timber and the proper utilisation of forest products. Forests should be re-classified carefully distinguishing those forests which are needed for the purpose of health, climate, prevention of floods and

future needs from the rest. Recommendations on these lines were made by the Royal Commission on Indian Agriculture.

Q. 5 Estimate the power resources of India. What steps will you suggest to improve their exploitation for the purpose of increasing wealth production in India? - Cal. B Com. 1933: Punj. '40; All. '38, '40; Agra '29, '35.

Ans. *Hydro-electricity:* Water power i.e hydro-electric power forms an important factor in promoting industrial development. Coal in India is available only at a high cost in regions distant from the coalfields of Bengal and Bihar. The development of hydro-electric schemes will thus supply cheap power to industries where coal is scarce and dear. Besides, the supply of cheap electric power is essential to the establishment of electro-chemical and electro-metallurgical industries In India the scope for the utilization of water-power resources is indeed very great, for it is a land of many flowing rivers. In 1921, the Hydro-Electric Survey of India estimated the total water-power resources to be 5·58 million kilowatts. This is believed to have been a serious underestimate. The total power resources are now estimated by expert opinion to be about 27 million kilowatts. Favourable sites for storage works exist in many parts of India, specially in the mountainous and hilly regions where rainfall is heavy. In Bombay, Mysore, Kashmir, Madras, U.P. and the Punjab, hydro-electric schemes have been developed. In the Western Ghats of the Bombay Presidency, there are three great hydro-electric schemes in operation at

Lonavla, Nila-Mula and the Andhra valley. The first hydro-electric scheme came into operation in 1903 on the Cauvery falls in Mysore for supplying power to the gold mines of Kolar. There are also several other important hydro-electric schemes in operation. They are :

(*a*) The Pykara Hydro-electric scheme on the Pykara river in Nilgiri district in Madras.

(*b*) The Mettur Hydro-electric scheme in Madras. It is said to be one of the largest of its kind in the world. It has two objects : (1) generation of electric power and (2) irrigation.

(*c*) The Hydro-electric scheme on the river Jhelum at Baramulla in Kashmir.

(*d*) The Uhl River scheme in the Punjab undertaken by the Punjab Government.

(*e*) The recently opened U.P. Hydro-electric works in the Upper Ganges area to supply power to agriculture and industries.

One difficulty, which is experienced in the establishment of hydro-electric schemes, is that due to the seasonal nature of rainfall, costly storage constructions are necessary and the expenditure thus incurred makes it difficult to supply power sufficiently cheaply. The Tata Company supply electricity in Bombay at 6 pies per unit. Electricity should be cheaper, otherwise industries in India cannot develop properly and stand the competition of foreign industries. This is specially true of electro-metallurgical industries. If electricity for the millions is to be our slogan, then electric power should

be supplied cheaply to all towns and even to the villages. The cost of electric power may probably be lowered by tapping the energy in flowing rivers in which there is a perennial current. The present high cost of electric power in India is due to the management of hydro-electric schemes by private monopoly and to the insufficiency of the demand for electric power. It should be the function of the state to plan and develop schemes for obtaining electricity. 'Private enterprise should not be allowed to function in this field. In regions where coal is abundant, electricity can be obtained more cheaply from coal than from running water. A National Power Resources Board should be established by the state for developing all power schemes. Electricity can easily be supplied in India at 3 pies per unit.

B. *Coal* : Coal is an improtant source of power in India Coal in India is unevenly distributed. The industrial regions of Bombay and Madras are far distant from the coal-producing districts in Bengal and Bihar. The use of good coking coal in India as fuel is a sheer waste. In regions where coal is abundant, coal should be converted into electricity and used as power. This will be more economical.

C. *Petroleum* . India is very poor in petroleum resource. She produces only 0·1 per cent of the world's output. Synthetic petrol can be manufactured in India from coal. Molasses can be converted into power alcohol and used in mixture with petrol.

D. *Wood Fuels* : Wood fuels have little industrial uses. Charcoal is still used in small workshops. Char-

coal can be converted into producer's gas for driving motor vehicles. This is being done during the present war. Wood has a great cost of carriage. Its use as power is not economical.

CHAPTER II

Population

Q. 6. Describe the growth of population in the country in relation to the increase in its food supply, Cal. B.A. '44.

How would you judge whether population in the country is growing too fast or not? Cal. B.A. '42.

Overpopulation lies at the root of Indian proverty. Do you accept this view? Cal. B.A. '36. '40.

What are the tests of overpopulation? Is India overpopulated? If so, suggest a practicable solution of the problem. Explain how far the Malthusian theory is applicable to India? Cal. B. A. '26, '38; Punj. '35, '39; All. '36; Agra '37; Nag. '39; Delhi '33, '35, '39.

Ans. According to the celebrated Malthusian theory, if men reproduce according to their natural instincts, of sex, population tends to increase in geometrical progression, doubling itself every twenty five years But food supply increases in arithmetical progression Thus the supply of population tends to exceed food supply which constitutes Nature's demand for population.

This is the cause of the poverty of the masses of people. To remove the unwanted population, Nature applies positive checks such as poverty, malnutrition, misery, high death-rate, especially among infants, epidemics, famines and wars. Poverty can be removed not by measures of economic betterment and social reform but by applying the preventive check. By preventive check Malthus means moral restraint, that is postponement of marriage until one is in a position to support a wife and five or six children.

Regarding the population problem in India, two questions arise. Applying the Malthusian theory, do we find signs of overpopulation in India ? This is the first question. The second question is this. Is the Malthusian theory correct and does it properly explain the causes of Indian poverty ?

If we apply the Malthusian theory then there seem to be strong grounds for believing that India is really overpopulated. There are many symptoms of over-population in India. India is the poorest among the civilised countries in the world with the possible exception of China. Marriage in India is almost universal. Poor people take no thought of the morrow while they marry. Even beggars in India marry. The birth-rate and the death-rate in India are perhaps the highest in the world. The crude birth-rate in India is about 34 per thousand of population and the crude death-rate is about 24 per thousand. The statistics of births and deaths in India are very imperfect. Dr. Gyan Chand thinks that the actual rates of birth and death are very much higher. Due to public health measures taken by the Government,

the death-rate has been declining faster than the birth-rate This aggravates the population problem. The 1931 and 1941 censuses recorded 10·6 and 15·1 per cent increases in population respectively. About 50 lakhs are being added to the population every year.

The food supply is not however increasing correspondingly. Mr. P. K. Wattal surveying the situation from 1913-14 to 1935-36 declares that while population increased by about one per cent per annum, food supply increased by ·65 per cent per annum. Taking one acre of cropped land per head as the standard for maintaining the population, Dr. Radhakamal Mukherjee finds that the cropped area per capita in Bengal is only ·47 acre. Bengal is thus seriously overpopulated and the same is true of Bihar, Orissa, the U.P. and Madras. While the total food requirements of the population amount to 321.5 billion calories, the actual supply available, according to Dr. Radhakamal Mukherjee, is only 280 billion calories. The reports of the Public Health Commissioners have repeatedly pointed out the serious degree of malnutrition prevailing in India About 10 per cent of the population live chronically on the verge of starvation. Millions of people die in India each year of preventable epidemic diseases such as Cholera, Typhoid, Malaria, Dysentery and Tuberculosis.

While all these point to overpopulation, it is very difficult to be certain about the matter. Statistics of crop acreage and crop production in India are notoriously defective. Dr. P. J. Thomas argues that food supply in India has increased faster than the population. If we take into account the growth of total production in

the country and compare it with the growth of population, then there is little ground for holding that India is overpopulated. But considering only the growth of food supply, there is undoubtedly a serious situation in India, especially in the rice-growing tracts. Land is deteriorating in quality in India and the cropped acreage has in many places actually fallen During the present century India has been transformed from a food exporting to a food importing country. All these are serious portents

Even admitting all these facts it does not necessarily follow either that the Malthusian theory is correct or that India is really overpopulated. Apologists of British rule in India contend that economic prosperity brought about by British rule in India, as for example in the canal colonies in the Punjab, has been more than offset by the too rapid growth of population. This explains the poverty of India under British rule The explanation is hardly correct. It is notorious that British rule has kept India industrially and agriculturally backward. Mahatma Gandhi and Pandit Jawaharlal Nehru hold that with suitable reform in land laws and increased productivity of agriculture and industry, India can support with comfort three times its existing population. It is now admitted by most economists and statesmen that with proper economic planning the national income in India can be raised three times within 15 years.

Even as a theory of population growth, the Malthusian theory is now rejected by scientists. Professor Pearl has demonstrated that the birth-rate after increa-

equitable distribution. Fully explain. B. Com., 1930, '38 ; Dacca, '39.

The general idea is that since in India the growth of population is in excess of means of subsistence, the problem of India's overpopulation can be effectively solved if the rate of growth can be reduced. In other words, if the rate of population growth slows down, the number of existing people may ultimately become proportionate to the available supplies of means of subsistence. This line of reasoning places an undue emphasis on the size of the population only. It assumes that the economic opportunities in the country will remain stagnant and are not capable of expansion. This assumption is admittedly not correct, for well-planned efforts and employment of up-to-date and scientific methods for the production of foodstuffs and other economic resources may be accelerated and made to keep pace with the growth of population in the country.

So we may look at the problem of population or overpopulation from the standpoint of improving and expanding production. Overpopulation is after all a relative term, for if population grows rapidly and economic resources and opportunities also grow rapidly in a corresponding scale, there need not be any apprehension for overpopulation.

The growth of population is not wholly an evil. Each man born into the world brings not only an additional mouth to feed but a pair of additional hands to work with. The growth of population is in an economic sense a progressive factor. It enables society

to produce on a larger scale of production and introduce a more extensive division of labour. The range and intensity of social co-operation, promoted by a growth of population, may increase the efficiency of production. This is specially true of manufacturing industries and it may also hold good of agriculture.

But the mere expansion of efficient production will not mean that the increased economic resources and economic opportunities in the country will be available equally to all. Supposing some people take greater advantage of them than others then certainly those who will fail to secure such advantages will remain in an unsatisfactory economic position. This is in fact the situation under the existing system of maldistribution of national wealth. The society is based on the capitalistic system and as such wealth concentrates in fewer hands and economic opportunities are within the control of the minority in the society. Thus even if production is efficient in the country and the sum-total of available resources at a certain time is adequate for feeding the entire population, many millions may go under-fed and under-clothed, if there is maldistribution of wealth in the society So the problem of a large population is not so much a reduction in the numbers, but the numbers remaining the same, the problem may be satisfactorily solved by organizing efficient production and equitable distribution of resources in the society. When the size of the population and the volume of production become so adjusted, one may term such a population as the "optimum population" according to the conception of Prof. Cannan.

Q. 9. "In India there is really no problem of over-population at the present time". Examine the view. B. A. 1938.

A country may be considered as overpopulated when the birth-rate is very high, the death-rate is very high, the density of population is high, infant mortality is high, the general standard of living is very low and there are no preventive checks to the growth of population. Judging from these standards, India may be judged as overpopulated, for the average density of population in this country is 246 per square mile while in such areas as Bengal the density per square mile is as much as 779 This is a very high density and excepting the crowded areas in Europe like Holland, England and Germany, it is the highest in the world. At the same time the general economic conditions of the masses are miserable, for the majority of them are ill-clad and under fed, while the rate of population growth is 15.1 per cent as shown by the last census and mortality figure is high. From these facts the conclusion would be irresistible that India is overpopulated Accordingly the above statement would prove to be unwarranted.

But such a conclusion cannot be absolute, for over-population is a relative term. It is relative to the requirements of the people and the prevailing standard of living. If we judge the standard of living in India in terms of the standard prevailing in western countries, we shall find that the living conditions in this country are very miserable and since the existing resources of the country do not provide a similar standard to the people of India, it must be awfully overpopulated. Such

an inference would be unwarranted, for on the basis of the standard which India's traditions would justify as fair, it may be found that with little efforts India may be enabled to grow sufficient means of subsistence for the people. In other words, if Indian agriculture is improved and industrial development pushed to the desirable extent, much of India's misery may be removed. Thus we may conclude that India is not absolutely overpopulated. While population is growing, India's economic resources are also expanding Only the rates of expansion in the two cases are not the same That is the main reason why the economic conditions of the people are worsening day by day With better planning the expansion of economic resources may be expedited so as to catch up with the growing population.

On the whole it may be said that India's present population is not of the desirable size that would be warranted by the existing economic resources. In other words, India's population is in excess of what is called the *optimum* number having regard to the existing economic opportunities in India at the present moment.

CHAPTER III

Social and Religious Institutions

Q 10. In what manner do the conditions of Indian society affect the economics of the country? B. Com, 1932.

Describe the important feature in the social structure of the people of India. Cal. B.A. 1937.

Examine briefly the influence of social institutions on the economic life of India. Cal. B.A. '36 ; '42 ; 44 ; B.Com. '30 ; '42 ; Dac. '37

Caste System : The economic activities of a society have a close correspondence with the prevailing social and religious institutions, for they condition the economic life in a direct manner. The caste system, for instance, has exercised a profound influence on the economic activities of the people of India. There were four original functional castes which followed different occupations, namely, the Brahmins (the priestly class), the Kshatriyas (the fighting caste), the Vaisyas (the trading class) and the Sudras (the serfs) ; but in course of time these castes have lost their rigidity and many sub-castes, such as the Tantis (weaving class , the Karmakars (blacksmiths), the Kumbhakars (potters), the Kasaris (brass and bell metal workers) etc., have come into existence. The rigidity of these sub-divisions according to specific occupations is also gradually breaking down. But all such caste divisions have had a far-reaching effect on the forms of economic activities pursued in the country. The advantages of the caste system may thus be briefly summarised :—

(a) The caste system has promoted contentment and the stability of Indian society. The birth of a man fixes his career for him and thus he has not to worry about the choice of an occupation.

(b) It preserves the advantages of hereditray skill.

The son in early life picks up the trade of his farther and becomes skilled. The family atmosphere gives industrial training to the children.

(c) The caste organisations served as Trade Guilds. They regulated production and prices, and settled trade disputes.

The defects may be summarised as follows :—

(a) Caste system prevents the choice of occupations according to one's personal taste and ability.

(b) Since change of occupations is debarred by the caste system, mobility of labour is not possible.

(c) Caste is a hindrance to large-scale enterprise. In large-scale enterprises intellect, capital and labour require to be brought together; but since the caste system allocates these to different castes, any large-scale enterprise is out of the question.

(d) The rigidity of caste distinctions is responsible for the tendency of higher classes to look down upon certain forms of labour. This lack of the sense of dignity of labour is inimical to economic progress.

The effects of all these have been that no large-scale economic activities have been possible and new improvements on the basis of modern inventions have also been very slow. In consequence cottage and small scale industries predominated till the beginning of modern industrialisation.

The spread of education and the modern modes of thinking and living have caused a general laxity of caste rules and distinctions in India. Boys and girls of different castes read in the same schools. In trains and steamers, men of different castes are thrown together.

In hotels and restaurants it is obviously impossible to observe the caste rules prohibiting inter-dining. The influence of the western ideas of democracy has generated a greater sense of toleration and equality. In the factories and trade unions, the workers feel their unity as wage-slaves much more keenly than their caste and religious diversities. Caste has ceased to be an inseparable barrier to economic progress though its evil effects are still considerable.

The Joint Family :—The effects of the joint family system on the economic life of the country have also been profound While it has fostered affection, love, unselfish family cohesion and serves as a substitute for social insurance, it has also retarded individual initiative, and the growth of self-help. Besides, the system does not encourage accumulation of wealth which can be utilised for large-scale enterprise. Modern economic enterprise is essentially individualistic. Joint family enterprise has proved successful in India in starting small-scale industries with moderate capital. Family Capital is pooled and as most of the work is carried on by the members of the family, there is no heavy wage-bill which is an inestimable advantage in the initial struggling period. But in large-scale industry where personal initiative and vigour are needed, joint family enterprise has on the whole a deadening effect. In the great bussiness families of India, each brother has usually a separate line of business though the brothers may stick together and have a common household. In Bengal the tendency to separatism among brothers is very strong.

Laws Of Inheritance :—The economic effects of the

laws of inheritance which favour division of properties among sons within the Hindu community and among sons and daughters in the Muslim community have not been quite happy. They have furthered an equal division of wealth and helped the growth of the middle classes. But the partition of properties has led to the creation of smaller and smaller units, with the result that accumulation of wealth which is necessary for large-scale enterpise has been prevented Besides the fragmentation of holdings in land has led to a positive deterioration in the productivity of agriculture. Lands in the possession of individuals are uneconomic and the process of continuous sub-division of lands and properties has led to endless litigation involving much wastage of money.

Q. 11. Explain the reaction of a low standard of living upon productive efficiency. How do the institution of joint family and early marriage affect the standard of living in India? (B. Com., 1933.)

(For answer to the first part, see answer to Q. 31)

Effects of joint family and early marriage on the standard of living: The system of joint family may have its good features, but its economic handicap is that individual initiative and the instinct of self-help cannot grow. The members of the family are often lulled by a sense of security on the assumption that the head of the family will anyhow maintain them. The result is that the earnings of a member or a few members even are not adequate for a good standard of living. Necessarily the general standard of living deteriorates.

The effects of early marriage are : (*a*) the excessive growth of unhealthy children and (*b*) the general physical deterioration of the people. So while on the one hand the increase in the number of people leads to the lowering of the standard of living, the general weakening of the physical health affects the standard of living in an indirect manner.

Q. 12. Describe the economic advantages and dis advantages of the caste system in India. (Cal. B. A. 20, 31, 32 : B. Com. 35 ; All. 33).

What is the origin of the caste system? Discuss how far it is unsuited to the structure of modern society and show how under the stress of modern economic conditions, the rigidity of the old caste system has been considerably modified. (Cal. B A. 29 ; Punj. 34). (See answer to Q. 10.)

Discuss the economic advantages and disadvantages of the joint family system. (Cal. B. A. 20, 30, 31 ; B. Com. 33, 36 ; All. 33 ; Delhi. 33 ; Nag. 39).

Joint family :—The good economic effects of the joint family system are :

(*a*) It ensures at least a bare subsistence to all the members of the family ;

(*b*) The system has provided a safe and respectable asylum for widows who cannot remarry owing to social customs and also orphans who find a shelter without being cast adrift into the world.

(*c*) The family system provides a home and shelter for the aged, the infirm and the disabled.

(*d*) In the houses of the artisans, the system provides a simple division of labour, for each member may perform an allotted task. For instance, in a

weaver's family even the children and women have their parts to do in the preparatory processes

(*e*) Since a family maintains one establishment, there is some saving in expenses so far as equipments are concerned Even a small income may, therefore, maintain a larger number of people than would be possible in case each member were to maintain an individual household.

(*f*) In the field of economic enterprise it favours the starting of small scale business with little initial capital. Free family labour is a great asset to such business.

(*g*) It promotes a sense of unity and solidarity among the members and thus renders the family unit strong in the struggle for existence and survival.

The following are the defects of the joint family system :—

(*a*) The joint family system does not encourage the growth of individual enterprise and self-help.

(*b*) There is no relationship between efforts and rewards, for whatever rewards are achieved are shared by all, while efforts are not always shared, except in the case of artisans' families.

(*c*) It fosters stay-at-home habits and indolence, for the urge for proving useful to the society is not strong under the system which creates a sense of security.

(*d*) Since the income of an individual in the family is spread over to meet the needs of the whole family, accumulation of wealth is not possible. Since the majority of families in the country are poor, the combined

effect is that large-scale enterprise cannot be possible on account of the lack of accumulated capital.

(e) Based on the idea of subordination to the head of the family the joint family system has a deadening effect on the spirit of independence and enterprise.

(f) It fosters *jealousy, quarrels and litigation.* The business unit based on joint family often breaks up and ends in ruin.

CHAPTER IV

Economic Transition in India

Q. 13. Examine the principal features of the transition from the agricultural to the industrial stage. (B.A., 1920.)

The process of transition from the agricultural stage to the industrial stage in India has long begun In a conservative country like this the transition is taking place slowly but steadily. India of 50 years back is not the same as today, for there have taken place many changes in the economic structure of the country. The outlook, habits and customs have undergone changes and are undergoing further changes The principal features of these changes in different spheres are indicated below.

(1) Transition in agriculture

The methods of agricultural operations have not undergone any fundamental changes. Cultivation on a

small scale by small farmers working with their own capital which is small and inadequate and their own labour is still going on. The sub-division of lands has increased owing to the prevailing laws of inheritance. Thus the number of small cultivators as well as landless agricultural labourers has increased.

Another important change in agriculture is its progressive commercialization. Owing to the improvement of means of transport and communications the agricultural products of India are obtaining wider and wider markets. Since the opening of the Suez Canal in 1869, progressive contact with the markets in different continents has been possible. Because of the special needs of foreign markets, different areas in India have specialized in different crops Thus Bengal grows jute mainly, Burma grows rice, and the Deccan grows cotton.

The economic conditions of the small peasants have also undergone a change in the sense that because of their accumulated indebtedness, most of them have been dispossessed of lands by money-lenders and other agencies. In order to remedy this situation and to render some relief to the debt-ridden peasants, legislation has been passed in all provinces.

(2) Transition in village industries.

In the days gone by India's economy was mainly fed by agriculture and rural industries. These industries were carried on by the different castes as their traditional occupations and were very prosperous. But with the rise of machine industries competition of large-scale industries became keen, so that many of the

village industries have died out or are now completely decadent. The result has been that many thousands of workers were thrown out of employment or had to seek other occupations. Even those who are sticking to their family occupations can hardly eke out a bare livelihood out of them. So rural economy is very much depressed. The earnings of industrial artisans in the village are very small while competition from big industries is becoming more and more serious. In short, the self-sufficient economy of past days, that was the special feature of rural India, does no longer exist.

(3) Transition in large-scale industries.

Since the middle of the last century large-scale industrialization has started. The process has been slow owing to the conservatism and shyness of Indian capital but the progress has been steady enough. But it cannot be said that Indian enterprise has been sufficiently forward in all spheres. For while the cotton textile industry is mainly controlled by Indian capital, the jute industry on the other hand is dominated by European capital and enterprise. Another feature of India's industrial progress has been that there has not been any conscious plan behind the enterprises whether Indian or non-Indian. Necessarily many branches of industries, such as basic industries or essential industries like heavy chemicals, shipping etc., have not been developed.

Q. 14. "City India stands separate from rural India." Examine the significance of the above. (B. A. 1921.)

According to the census return only 11 persons out

of every 100 live in urban areas This shows that the vast majority of the people live in the villages. Although steady economic transition to industrial stage is taking place in the country, the rural India still retains much of its distinctive features, *viz.*, predominance of agriculture, cottage industries carried on by the crude traditional methods, influence of custom on wages, interest and rent, immobile labour etc. On the other hand there have grown up many large cities and towns like Calcutta, Bombay, Madras, Tatanagar, Ahmedabad etc. in which large-scale machine industries have been established. Side by side, development of electricity, telegraphs, telephones and other modern agencies of human utility has rendered the urban life entirely different from that in the rural areas. While life in the large cities seems to be full of modern amenities and prosperous in the modern sense, life in the village appears to be petty, devoid of novelty, indigent and hopeless. Thus the contrast between the two parts of India, namely, rural India and urban India, seems to be very striking.

Although this contrast is real to some extent, it does not give the real relationship between the two. Although rural India is different in many respects from urban India, the former has a vital connection with the latter. In fact, the former feeds the latter. While it is true that many villages get ruined because of the exodus to the cities, it should also be recognized that the cities of the country which are the gateways of trade and commerce cannot but serve rural India also. One cannot thrive at the cost of other. Already the cry—

"Back to village"—has been raised which should mean that the people of the country who amass fortunes in cities need not forget the claims of the villages. They should come forward to improve villages and render village life fuller and happier. It should be said that already the contact between the villages and the urban areas has become increasingly closer because of the extension and improvement of means of communications.

CHAPTER V

Agriculture

Q. 15. Enumerate the main defects in the present agricultural system of India and suggest remedies to improve it. (Cal. B.A., 31, 35; B. Com. 36, 38, 40; Dac. 30, 36; All. 36, 37; Delhi 33, 37; Punjab 36, 37; Agra 37, 42.)

Agriculture is the mainstay of Indian economy and the foundation of national prosperity About 80 p. c. of the total population are directly or indirectly dependent on it Though a prosperous agriculture is a vital necessity for the economic well-being of her teeming millions, yet agriculture in India is carried on under highly unsatisfactory conditions. Agricultural output per acre of land is one of the lowest in the world. It is only a fraction of what land in other progressive countries yields. The yields of sugarcane in India is one-sixth that of Java. The outturn of rice per acre is 34 5 quintals

in Japan and 14·4 quintals in India. The causes of the abnormally low yield and the consequent poverty of the ryots may be stated thus :

(1) In the first place, one of the obvious causes of low productivity is the comparative dryness of the Indian soil, the lack of certain essential minerals in it and the most uncertain character of the rainfall. Rainfall is not only precarious but is also unevenly distributed over the different regions of the country. Besides such climatic vagaries and calamities as floods, hail-storms, frosts, etc. also cause much destruction of crops. Moreover, the lack of a well co-ordinated plan of distribution of river waters on an inter-provincial basis has led to a considerable deterioration in the fertility of the soil in recent years. Provincial governments have been constructing dams to divert river waters for the use of local crops only, without any regard for the consequences which such actions produce to other crops and in other regions

(2) Secondly, the ryots are handicapped from the lack of adequate and cheap capital resources The peasant has to borrow money from the Mahajan at exorbitant rates to meet agricultural expenses and also to support his family till the crops are harvested and sold. The result has been that the burden of his indebtedness is becoming heavier every day. The exsitence of crushing indebtedness is one of the most serious problems of Indian agriculture. The cultivator is also precluded from adopting improved implements, good seeds, better manuring and efficient cattle for want of capital. Due to this cause he is also unable to effect any permanent

improvement on the land The landlords have sadly neglected this duty of improving the land.

(3) Thirdly, following from the above cause, the methods of tilling followed by him are notoriously simple and have not progressed beyond the methods followed in the days of Manu. He merely scratches the surface of the soil with an out-of-date plough and scatters a handful of seeds, and then patiently waits for rainfall The low yield is easily explained under such a system of cultivation, and whatever he gets is due to the bounteousness of nature.

(4) Fourthly, as a result of the laws of inheritance and the growth of the spirit of individualism, there has been excessive sub-division and fragmentation of land, which is bound to lead to uneconomic cultivation and entails great waste of time and labour and cattle power.

(5) Fifthly, the absence of satisfactory marketing facilities is also a contributory factor towards agricultural backwardness. The cultivator very often borrows money from the Mahajan on the stipulation that when the harvests are over, he would sell the crops to the Mahajan. Naturally, he cannot obtain a fair value for his produce under such circumstances. Lack of holding power on his part also compels him to sell the major portion of his crop immediately after the harvest season to the *farias*, *beparis* and other middlemen who go round the villages to collect the produce. Though these middlemen render a very useful service in the marketing process of crops, the share they retain out of the price paid by the ultimate consumer is excessive and

out of proportion to the services they perform They are also responsible for much adulteration and mixing of grains, which has resulted in a low opinion about the quality of Indian food grains and other seed crops in terminal markets and overseas countries. The lack of organised and regulated markets is a serious handicap to the agriculturist.

(6) Sixthly, the absence of subsidiary rural industries, whereby the peasant can supplement his income and improve his economic position, is a source of great weakness to the small holder in India. The peasant has to live in enforced idleness for the greater part of the year for want of any subsidiary occupation and has to fall back upon his meagre savings or is driven to the shackles of the Mahajan.

(7) Lastly, the greatest defect of Indian agriculture is the agriculturist himself. He is steeped in illiteracy and ignorance and has a very low standard of living A fatalistic attitude of mind towards life, born out of his religious teachings, is no less responsible for the absence of any desire to improve his lot Thus he is in a vicious circle. He has a low standard of living because his productivity is low Again his productivity is low because he has a low standard of living and is therefore ignorant and incapable of adopting better methods of cultivation for want of money.

Solution of the Problem:—The solution of the problem lies in the removal of the defects explained above. The first and foremost necessity is the provision of credit facilities sufficient to wipe out the past indebtedness of the ryot and to meet his current agricultural

expenses Laws have been passed in various provinces for composition of agricultural debts i.e. debt conciliation and an easy system of repayment of composed debts. The Government of Bengal has passed the B A D Act in 1935 The Act, in spite of its defects and drawbacks, has proved a boon to the indebted ryots. But no provision has been made for supplementing the law by making cheap credit facilities available to them. As a result of the Act the money-lenders are unwilling to make advances to the ryots, and there has been almost a breakdown of the machinery of rural credit. The lasting solution of the problem of rural credit lies in two things Firstly, cheap and adequate credit facilities should be made available to the agriculturists by the extension of co-operative and joint-stock banking to rural areas. Secondly, the cultivator must be educated in frugal and thrifty habits The Agricultural Departments of various Provincial Governments in collaboration with the Imperial Council of Agricultural Research have been able to evolve improved ploughs and other agricultural implements, suitable to meet the requirements of Indian agriculture. But the problem is how to make them available to the agriculturists. Co-operative societies provide the best media for supplying these improved implements and also improved seeds, better manures, etc. to the agriculturists. Better marketing facilities can also be provided through co-operative sale societies, which would protect the ryots from the rapacity of the middlemen. Such measures as standardisation of weights and measures, the establishment of *regulated markets* and licensed warehouses, the grading

of agricultural products and the fixation of minimum prices would go a long way in improving agricultural marketing The tendency to excessive sub-division and fragmentation of lands can be checked by co-operative farming as done in some areas in the Punjub, or by disallowing plots to fall below the size of an "economic holding", income from which is sufficient to maintain a family in reasonable comforts. "In combination of scientific peasant farming and the spread of agricultural co-operation", as Prof. Radhakamal Mukherjee has said, lies the real solution of the problem of agricultural backwardness of India "The form of land tenure and the laws of inheritance require also to be modified." Above all, there must be a wide diffusion of education in the country without which it would be futile to expect a lasting improvement of the social and agricultural conditions of the country.

Q. 16. There are some advantages and disadvantages of large-scale production in agriculture. Consider them with reference to Indian soil and conditions (B Com. 1925.)

The advantages of large-scale production in agriculture are similar to those in manufacturing industries. They may be enumerated thus :—

(1) In the first place, the large-scale farmer has command over a greater amount of *capital*, which enables him to buy expensive machinaries for agricultural operations. Large-scale farming also offers opportunity for economy and efficiency in the buying of materials and the selling of produce.

(2) Secondly, as the area of *land* cultivated is large

this offers scope for effecting improvement of a permanent character on the land. A large-scale farmer can construct his own irrigation works, build roads within the farm, and introduce the proper rotation of crops.

(3) Thirdly, as regards *labour*, the division of labour can be carried to the proper limit, though it must be remembered that the scope for division of labour in agriculture is very small as compared with industries. In short the advantages of large-scale production in agriculture arise from the fact that under such a system alone greater and greater application of science to agriculture is possible. It is only under large-scale farming that the relation between land, labour and capital can be so arranged as to lead to the greatest possible advantage to the farmer. The amount of produce raised under large-scale farming is much larger than what could be raised from the same plot of land, if it were divided among a number of small farmers.

But, as has been said above, large-scale production cannot be carried to the same extent as in industries.

(1) Firstly the scope for the division of labour is much smaller in agriculture than in manufacture. The result is that diminishing returns operate much earlier in agriculture.

(2) Secondly, agricultural machineries are not highly specialised like machineries used in manufacture.

(3) Thirdly, large-scale management is extremely difficult in agriculture, because agicultural operations are not easily subjected to a fixed routine. In agriculture much must be left to the zeal and intelligence of the individual worker. The consequence is that agricul-

ture has nowhere the same tendency to the enlargement of the scale of production which is unmistakable in manufactures. A farm which is called large is an industrial unit of comparatively small size. Even in Soviet Russia, many mammoth farms that were set up in the first wave of enthusiasm for collective farming were soon split up into smaller ones.

However desirable large-scale farming may be in India there are almost insuperable difficulties in its adoption. As a result of excessive sub-division and fragmentation, most of the holdings are unduly small, in majority of cases less than one acre. Moreover, due to the prevailing land tenure system, as in Bengal, ryots have come to possess occupancy rights in the land, to which they would cling to the last. In such circumstances it is very difficult to attempt to parcel out land in fairly big plots so as to make large-scale farming possible. To overcome this difficulty it would be necessary to enact laws for a compulsory reconstitution of holdings. Laws of inheritance and succession also stand in the way of adoption of large-scale farming in India. A modification in this direction seems to be called for. Instead of allowing every son to succeed, a preferred heir might be created, who would take over the landed property undivided on compensating other heirs. But it may be pointed out in this connection that "such consolidation of holding would result in a huge displacement of labour and the consequent social disorganisation and discontent." This existence of a large number of unemployed landless labourers, may prove a constant source of serious agrarian trouble. So new avenues of employment shall have to be found to

absorb the labour thus displaced. All that we can hope for is the setting of up "economic holdings," which will not be as large as American farms. Such a farm would achieve most of the advantages of large-scale farming, while the possible evil effects would be warded off. Such a farm would also support a family at a reasonable standard of comfort without help from outside sources.

Q. 17. Discuss the main features of agriculture in Bengal and suggest methods by which it can be improved. (B. Com, 1938)

(See answer to Question 21. The main defects of agriculture in Bengal are the same as elsewhere in India, and the remedies also apply equally well in the case of Bengal.)

Q. 18. Compare and contrast the chief features of agriculture with those of manufacture. To what causes would you attribute the predominance of one over the other in India? (B. Com. 1924.)

The main point of contrast between agriculture and manufacture lies in the fact that though both are amenable to large scale production, the scope of such operations is very much smaller in agriculture than in manufacture. This is due to the fact that the Law of Diminishing Returns operates much earlier in the case of agriculture, whereas in the case of manufacture application of successive doses of labour and capital, with increasing returns, may be pushed to a far greater extent. Again, as agricultural operations cannot be easily subjected to a fixed routine, supervision is very difficult This is one of the causes why large-scale production cannot be carried to the same extent in agriculture a

in industries, because in agriculture so much of the task depends on individual skill and efficiency. Thirdly, the scope of using machineries is also much smaller in agriculture. Moreover, there is an element of uncertainty in agriculture, as agricultural production depends so much on timely and adequate rainfall and other climatic factors over which man's control is practically nil. Besides, agriculturists are as a rule conservative, and hence the standard of intelligence and education among them is also low.

In manufacture, though the Law of Diminishing Returns will ultimately operate, yet as that stage arrives at a very later date, it would not be untrue to say that generally speaking, industries follow the Law of Increasing Returns. Again, because industrial operations can be concentrated in a small place, supervision is easier and there is much scope for managerial skill and industrial leadership Furthermore, industrial operations are dynamic in character. The industrial classes are, therefore, also more virile and energetic. Moreover, development of industries within a country provides a more balanced national economy by absorbing the surplus population not required for agricultural operations.

Agriculture is the mainstay of India's prosperity, and its importance is preponderatingly greater than that of manufacture. In India agriculture, no doubt, has always been the most important industry. but it is not true to say that India has never been an industrial country and that nature has destined her to remain as an agricultural country for ever. Up to the beginning

of the 19th century India was both an agricultural and a manufacturing country. Indian industries once attained a high stage of perfection and products of her handicrafts once evoked the admiration of western countries. These products also had extensive markets beyond the frontiers of India. Indian industries, however, began to languish from the end of the 18th century as a result of several unfavourable circumstances, and their decay led to a progressive ruralisation and loss of economic equilibrium in the country. The causes of their decay may be enumerated in the following manner :—

(1) With the disappearance of the indigenous courts and of the nobility, the patronage provided by them also disappeared, as a result of which the main demand for the products of handicrafts also ceased and hence their decline set in.

(2) The adverse policy of the East India Company and the British Parliament which demanded that India should export only raw materials necessary for the English manufactures also hastened the decline of the handicrafts. It is unfortunately true that the selfish commercial policy of England a hundred years ago "discouraged Indian manufactures in the early years of British rule in order to encourage the rising manufactures of England."

(3) The competition of cheap machine-made goods from England and elsewhere, which was made more intense by the development of roads, railways, and telegraphs in India and the opening up of the Suez Canal, also hastened the doom of the Indian artisan.

(4) Last, but not the least, the Government of India, too, following a *laissez faire* policy, not only did not help the Indian handicrafts struggling for their very existence, but sometimes went out of their way to give direct assistance to British industries in finding a market in India.

Q. 19. Explain the chief characteristics of an agricultural as compared with those of a manufacturing country. (B. Com, 1935)

(See answer to Question 24.)

Q. 20. Classify the soil in India, giving the characteristic qualities of each and the important crops that are grown on each. (B. Com. 1935, 1941.)

The soils of India may be broadly classified into four groups—(*a*) the "red" soil of the crystalline tract, (*b*) the black cotton or *regur* soils, (*c*) the alluvial soils, and (*d*) the laterite soils. The crystalline rock formations characterise almost the whole of Madras, Mysore and the south-east of Bombay and extend through the east of Hyderabad and the C. P. to Orissa, Chota Nagpur and the south of Bengal. These rocks also occur along the whole length of the Himalayas and are also found in Assam and Burma. The soils derived from them are deep red, brown and even black in colour. These soils also differ greatly in consistency, depth and fertility. The main characteristic of this type of soil is its extreme dryness. Where the depth of the soil is favourable, irrigation, either by wells or canals, can be applied advantageously to raise various crops. As a rule, soils of this class are deficient in nitrogen, phosphoric acid and humus but potash and lime are generally sufficient.

The type of soil known as black cotton soil or *regur* covers practically the whole of the Deccan tract and large areas in the Madras Presidency. It constitutes the second great division of the soil types in India. It is very tenacious and extremely sticky when wet. The damp soil contracts markedly on drying, producing wide and deep fissures in the field. This type of soil contains calcium and magnesium carbonates in a high proportion and also iron. Phosphoric acid, nitrogen and organic matter are generally deficient but potash and lime are not. It permits of cultivation being carried out within a short period after heavy rainfall. This type of soil is eminently suitable for cotton cultivation ; hence the name, black cotton soil Other crops like jowar, bazra, millets and other pulses are also grown on this soil

The alluvial soils of India are not only the most extensive but also agriculturally the most important. The most extensive alluvial tract in India is the vast Indo-Gangetic plain, comprising the greater part of Sind, Northern Rajputana, the greater part of the Punjab, the U. P., Bihar and Bengal and half of Assam Strips of these soils are also found along the coasts of the Indian peninsula. The amounts of nitrogen and organic matter in these soils vary, but are usually low. Potash and lime are adequate, and phosphoric acid, though not plentiful, is generally less deficient than in other Indian soils. These soils can be irrigated with great advantage and with a moderate and well distributed rainfall, are capable of growing a wide variety of crops as the depth of the soil secures great fertility Rice, wheat, pulses, sugarcane, oilseeds, jute, etc. are grown in these soils.

The laterite soil is found in the plateaus of Central India and along the Eastern and Western Ghats. It is also found in Assam and Burma. This type of soil is poor in chemical properties and its capacity of retaining moisture is also small. The agricultural value of this type of soil is, therefore, small.

21. Mention the imporant agricultural products of India and the areas in which they grow best. How have they been affected by the depression ? (B. Com. 1936.)

The principal crops of India may be divided into food crops and non-food crops The latter may again be subdivided into oilseeds, sugar, fibres, etc. Food crops preponderate largely and account for 81 p. c. and non-food crop 19 p. c. of the total sown area in India.

Food Crops—Among food crops rice stands first easily both as regards the area sown and the value of total yield. Then come wheat, jowar, bajra, millets, etc. Rice is mainly grown in *Bengal*, *Bihar*, *Orissa*, *Madras*, the U. P. and Burma. India is the largest producer of rice in the world. But with the separation of Burma from India, the position has changed. Wheat is grown chiefly in the Punjab, the U. P., the C. P., Bombay and Bihar Barley is grown in the U. P., jowar in Hyderabad, Bombay, Madras, C. P., and pulses in the U. P., the Punjab, Bombay, C. P. and Bengal. Besides there are other minor food crops. Of the total area under food grains, 19 p. c. is in the U. P., 13 p. c. in Madras, 11 p. c. in Bengal and the Punjab, 10 p c. each in Bihar, Bombay and the C. P. and Berar. Other provinces

account for only 16 p. c. of the total area under food grains in India.

Oilseeds—Linseed, ground-nut, rape, mustard and sesamum are the principal oilseeds raised in India. Linseed is mainly grown in C. P., Bihar, the U. P., Bombay and Bengal; ground-nut in Madras and Bombay; rape and mustard in the U P., Bihar, Bengal, the Punjab and Bombay; and sesamum in Madras, Bombay, Hyderabad and the U. P., The total area under oilseeds amounts to 18 *million* acres and account for about 5 p. c. of the total area sown. Of the total area under various oilseeds, 29 p. c. is in Madras, 13 p. c. each in Burma and the C. P, 12 p. c. in Bombay, 9 p c. in Bihar and 6 p. c each in Bengal, the Punjab and the U. P. and the remaining 6 p. c in other tracts.

Sugarcane—The area under sugarcane amounts to 4·3 million acres. Of the sugar-cane area, 57 p c is in the U. P., 13 p. c. in Punjab, 11 p. c. in Bihar, 8 p. c in Bengal and 3 p. c. in Madras.

Fibres—Fibre crops occupied 18·7 million acres in 1936-37. Of the fibre crops, cotton is the most important It is chiefly grown in Bombay, C. P. and Berar, Hyderabad, Punjab, U. P and Madras. Jute is the next most important fibre crop in India. The total area under jute comes up to about 2·5 million acres, of which 85% is in Bengal and the remainder is practically confined to the neighbouring provinces of Bihar, Orissa and Assam.

Drugs and beverages—Considerable areas are also sown with tea, coffee, tobacco, etc.

As India exports mainly raw materials and foodstuffs,

the importance of these agricultural crops to the Indian economy can hardly be exaggerated When foreign demand for these products is keen, Indian cultivators get a fair price for their produce. Large exports of these products also enable India to have normally a favourable trade balance, which in its turn helps the Government of India in meeting the Home Charges and also in maintaining the exchange value of the rupee. The last depression, therefore, very naturally had an adverse effect on these crops. Overseas demand fell and consequently the prices of these agricultural products also fell to abnormally low levels. The income of the agriculturists also fell, which entailed heavy hardship on them. They could hardly meet the expenses for their other necessities with their attenuated income Default in paying land revenue was also widespread, as a result of which zaminders as well as the Government revenues were hard hit.

Q. 22. Describe the irrigation systems of India, mentioning the areas in which each is predominant and the special economic features of each. (B Com, 1936.)

The importance of irrigation to an agricultural country like India can hardly be exaggerated There are many areas like Sind, Rajputana and South-West Punjab which are practically rainless, so that cultivation there is almost impossible without artificial irrigation. Besides, there are areas where rainfall is uncertain, precarious and ill-distributed. Many crops like rice, sugarcane, etc. require copious and continuous supply of water. The Indian agriculturists must raise a second crop

in winter if their economic position is to be improved. As the winter rains in India are extremely scanty, the cultivation of winter crops requires irrigational facilities. Thus the importance of irrigational facilities to Indian agriculture can be easily realised. On an average about 50 million acres are under artifical irrigation in India, the percentage of irrigated area to area sown being about 20.

There are three main kinds of irrigation works in India :—(1) Wells, (2) Tanks and (3) Canals.

(1) Wells—Wells have always been and will continue to be a vital factor in Indian irrigation. There are about 2½ million wells in India and about 5 per cent of the cropped area is irrigated by the wells. This form of irrigation is highly efficient and yields better results than canal irrigation, because when the cultivator has to raise water from a depth by personal exertion, he is very careful in its use. In the Punjab and more specially in the U. P. electricity is used to pump water from tube wells for irrigation purposes This kind of irrigation has great possibilities. The day of great irrigation projects is almost over and India will have to turn more and more to subsoil water for the purposes of irrigation. The utility of wells has increased with the evolution of small power-pumps of standardised pattern.

(2) *Tanks*—Tanks are great sources of irrigation, and have been in existence since ancient times. They are most highly developed in Madras, but are practically unknown in the Punjab and Sind Many old village tanks have, however, been silted up, and vigorous attempts should be made to revive them.

(3) *Canals*—They form the most important form of irrigation and are especially encouraged by the Government. Canals are of three types: (*a*) Inundation canals, (*b*) Perennial canals, and (*c*) Storage canals.

The *inundation canals* are constructed without any barrage and in such a way as to draw off water when the river rises above a certain level. The supply of water in the canal, therefore, fluctuates with the river level. If the latter level is low, there may be scanty supply of water, and if it is very high, the water in the canal reaches almost a flood level. The lands in Sind and Punjab are irrigated by such canals drawn from the Indus and Sutlej respectively But irrigation under this system is confined to the months of June to September when the rivers are in flood. During the latter part of the year no cultivation is possible without the use of wells. To remedy this defect, the Sukkur Barrage in Sind has been constructed on the principle of perennial irrigation, under which it will be possible to maintain water in the canal at a sufficiently high level by erecting a barrage across the mouth of the Indus.

The *perennial canals* are constructed by putting head weirs across the rivers at the starting points of the canals. They are thus independent of the natural level of water in the rivers. From the perennial canals water is available throughout the year irrespective of floods. The great perennial systems of the Punjab and the U. P. *e.g.* the Sutlej Valley project and the Sanda canal fall within this category.

The *Storage canals* are constructed by building a dam

across a valley to store rain-water during the monsoon. The stored water is then distributed through the canals. Such works are found in the Deccan, the C P. and Bundelkhand.

In addition to irrigation by wells, tanks, and canals, numerous temporary *bunds* for the storage of rainfall are constructed each season and water is obtained by lift from rivers and streams. In the aggregate these various subsidiary sources of irrigation are important as they supply over 10 p c. of the total irrigation.

Until 1921 Government irrigation works were also classified as *(i)* productive, *(ii)* protective, and *(iii)* minor, according to the source from which funds were provided for their construction.

Productive works were those expected to yield after 10 years a net return sufficient to cover the annual interest charges on the capital investment. *Protective works* were those not expected to be directly remunerative, but to ensure protection against famines of precarious tracts like the Deccan. Such works very often resulted in direct losses, but they often proved economical in the long run as they dispensed to a great extent with the necessity of periodical expenditure on the relief of the population in times of famine. These works were financed out of the current revenues of Government and were generally met out of the annual grants set aside for famine relief and insurance. Minor works comprised miscellaneous works, especially tanks, and were financed out of current revenues. Since 1921 this old classification has been abolished, and irrigation works are now classified as productive and unproductive

without any reference to the source from which the funds for their construction are provided

Q. 23. Classify the various kinds of irrigation works used in India How is the construction of private irrigation works encouraged by the Government of this country? (B. Com. 1926.)

(For answer to the first part, see Ans. to Q. 22)

The construction of private irrigation works in the form of wells and tube-wells is encouraged by the Government in a variety of ways (1) Technical advice and assistance is freely given by Government experts to a person desirous of boring a tube-well: (2) financial assistance is often provided in the form of *taccavi* loans; (3) Government may place boring equipment and skilled labour at the disposal of the landholder on payment of a reasonable fee; (4) the well is often installed by the Government on payment of a fee for its services; in the U. P. the Government pay a subsidy to the landholders for the construction of tube-wells; (5) Government also offer indirect encouragement by prohibiting the increase in the assessment of those lands which have been irrigated by private efforts

Q. 24. Give a brief account of the irrigation works of India. Is there any scope for the development of irrigation in Bengal? (B. Com. 1941.)

(For answer to the first part, see ans. to Q. 28)

The chief irrigation problem in Bengal is the deterioration of the rivers, particularly in Western and Central Bengal. This has had injurious effects on the health of the people and the fertility of the soil in these areas In the opinion of the Royal Commission on

Agriculture in India, these areas are suited for an extension of canal irrigation and of minor works of all kinds. Under the Bengal Development Act of 1935, major irrigation schemes can be undertaken by the Government. But experience has shown that the utility of such schemes is not always appreciated by those for whose benefit they are made The chief difficulty in Bengal arises over the payment of the water rate. But in Eastern Bengal and parts of Western Bengal, such as Arambagh and Ghatal, the problem is one of too much rather than of too little water. Here the problem is not one of supplying water to make up a deficient or uncertain rainfall, but of draining away the excess rainfall and maintaining communications in rivers which continually change their courses. In order to tackle the irrigational problems of Bengal, the Royal Commission on Agriculture, therefore, made the following recommendations. Firstly, a survey should be made for a general scheme of irrigation development. Secondly, the functions of the irrigation Department should be divided into two sections: irrigation proper and navigation, embankments and drainage. Thirdly, a Committee of experts should be appointed, which should include at least one expert who is familiar with the management of deltas of large rivers in other countries. This expert Committee should also consider among other things the advisability of setting up a Provincial Waterways Board. The first recommendation has been followed up, and a contour survey has been undertaken. The other two recommendations have not yet been put into effect. It is hoped that the Government will expedite the matter

and introduce measures that would once again turn Bengal into a smiling land of agricultural prosperity.

Q. 25, Discuss the relation between standard of living and production. (B. Com. 1938.)

There is no difference of opinion about the inter-relation between standard of living and production. Economists generally agree that a low standard of living goes with a low productive efficiency on the part of labour. The increase of production depends not only on the marshalling and organization of the labourers and on their equipment with capital, but also on the quality of the labourers, *i e.*, on their strength and skill. A low standard of living means that the labourers are ill-fed, ill-clad and badly housed. In that case their health and physique are bound to suffer, and with poor health it is not possible for them to work with sustained energy for any reasonable period during the day. As the saying goes : 'Feed your labourer better, and he will be able to do so much more." Again, a wide diffusion of education is a most effective means towards productiveness, but a low standard of living precludes such a possibility. Because of a low standard of living labourers cannot have any education, nor do they desire to have any. They remain steeped in ignorance and illiteracy, and hence lack in skill and intelligence Again, because they have a low standard of living, they prefer to marry early and consequently have a large number of children who, in their turn, are brought up under conditions of filth, squalor, dirt and poverty. They are ill-clad and under-fed, and when they grow up into adults, they have not tshat amount of physical vigour which is necessary for

efficient working. The cumulative effect of all these causes is the low efficiency of labourers. Therefore, they are paid low wages. Because of their low wages, they cannot afford to have the amenities and advantages of a higher standard of living. The labourers are ill-paid because they are inefficient; they are inefficient partly because they are ill-paid Thus the whole thing moves in a vicious circle. We have ample evidence to support this general conclusion about conditions in India The vast mass of agriculturists have a very low standard of living; hence they are incapable of adopting better and more scientific methods of cultivation. The result is that they grow a smaller amount of produce from a plot of land than their western comrades. Consequently their income is also smaller, which compels them to remain satisfied with a very low standard of living In industry, too. Indian labourers are less efficient than their western compeers. Hence their remuneration is also smaller. Therefore, their standard of living is also lower. Again as a result of their lower standard of living, they are physically poor and have no education, so to speak, which is one of the root causes of their lower efficiency and hence lower wages.

Q. 26 Examine the cause and possible remedies of the sub-division and fragmentation of agricultural holdings in India (Cal. B. A. 39, 43; B. Com. 26, 38, 40; Agra 33, 40, 41; All. 44; Delhi 38, 40; Nag. 40, 41.)

Discuss the lines on which attempts have been made in some parts of India to remedy the evils of excessive sub-division and fragmentation of landholdings. (Cal. B. Com 44.)

Ans. One of the chief obstacles to efficient cultivation in India is the excessive sub-division and fragmentation of holdings. The average holding of land in the hands of the cultivator is very small. In the many excellent surveys of Indian villages that have been published we find the same tale. There is a progressive increase in the number and percentage of small holdings. The average size of the holding in most places is between 2 and 3 acres. Even this small holding is not held in one compact block. It is fragmented into numerous tiny plots scattered over a wide area. The plots are often as small as 1 acre.

The causes of subdivision and fragmentation are the following :

1. The laws of inheritance both among Hindus and Muslims require succession of ancestral property to all the male heirs in equal shares.

2. The decline in the village crafts and the increase of population have caused an enormous growth in the number of people dependent on agriculture.

3. The tendency to break-up of the joint family had encouraged partition among brothers and decreased the size of the cultivation unit.

4. The practice of partitioning each plot of land has aggravated the process of fragmentation.

In the peculiar conditions of India there is something to be said in favour of sub-division and fragmentation. The distribution of property becomes widely diffused. Without the possibility of sub-division the number of unemployed agriculturists and landless labourers would be vastly greater than what they are.

On account of fragmentation each cultivator has at his disposal many different kinds of soil suited to a variety of crops. He has not to depend on one kind of crop only.

But the evil effects of sub-division and fragmentation are so many and so far-reaching that there is complete unanimity of opinion as to the necessity of checking them. The disadvantages may thus be summarised :

1. Cultivation becomes uneconomic. The cost of cultivation increases. The holding yields too small an income to support the cultivator's family.

2. Efficient cultivation becomes impossible. The application of improved methods of farming is out of the question. The plot is sometimes so small that the bullocks cannot turn in it

3. Much land is wasted in raising boundaries between different plots.

4 There is much waste of even the scanty resources of capital and labour that the cultivators possess. Cattle, men and plough, all remain idle for many months of the year.

5. Enterprise and initiative are discouraged. Each cultivates as his neighbours do.

6. Manuring and irrigation become difficult. If the cultivator digs a well, the water cannot be carried to all his fields because his neighbours' plots stand in the way.

7. Litigation and quarrels become frequent.

Sub-division may be prevented by legislation prohibiting a fall in the size of the holding below a

minimum acreage. Taking the nation as a whole, agriculture would be most efficient and productive if all holdings were of an optimum size. But that would obviously reduce the numbers of persons dependent on agriculture and cause serious unemployment among the cultivators in the absence of alternative occupations. Hence all that can be aimed at is the setting up of economic or subsistence holdings. Sir T. Vijayaraghavachariar suggests that the "minimum subsistence family holding" would consist of 4 to 6 acres. Dr. Harold Mann and Prof. Stanley Jevons put the size of the economic holding at 20 and 30 acres respectively.

Sub-division can also be remedied by leaving proprietary rights untouched but arranging joint cultivation. A plan of collective farming may be drawn up either on the co-operative or on the Russian model. The Egyptian practice under which one brother cultivates while all the brothers share in the produce equitably would also reduce the dangers of sub-division.

Fragmentation may be remedied by consolidation of holdings In the Punjab the experiment of consolidating holdings through co-operative societies has proved a distinct success. From 1920 to 1939, about a million acres have been consolidated. Under the Punjab consolidation of Holdings Act, 1936, officers have power to prepare schemes and settle claims among right-holders. In the C. P. while consolidation is mainly voluntary, a certain degree of compulsion is provided for to overcome the opposition of a few recalcitrant right-holders. In Baroda, the Partition of Immovable Property Act prevents fragmentation below prescribed limits. Neigh-

bours and co-parcenars have been given the right to purchase adjoining land in order to prevent fragmentation by sale. Sir M. B. Nanavati observes in this connection : "The only best way is for the Government to purchase all the land, plot it out again and sell the fields by auction". Sir M. B Nanavati's plan would introduce capitalism into Indian agriculture.

Q. 26. What are the chief difficulties of the present system of agricultural marketing in India? How would you remedy them ?

Write what you know about the marketing of jute or rice and suggest ways and means by which the existing state of things can be improved.

(Cal. B.A. 41, 43 ; B. Com 30 ; Punj. 36, 37, 31 ; All. 39, 42 ; Pat. 40 ; Mad. 37, 38.)

Marketing of Jute—Usually, jute is sold by the growers to the farias who visit the villages. Farias are commission agents of the beparis. The beparis may also buy direct. Sometimes the sale is made either to a faria or to a bepari in a nearby hat or village market. The beparis sell to the mahajans. The bigger beparis may sell directly to the Calcutta aratdars. The mahajans may sell either to a Kutcha baler in the mofussil or to the Calcutta market. There are six principal markets in Calcutta :—Hatkhola, Cossipore, Ultadingi, Shyambazar, Baghbazar and Fulbagan. In the Calcutta markets, the jute mills and the pucca balers buy through brokers and under brokers. Pucca bales and jute goods may be exported abroad through shippers There is also a market in jute in Calcutta known as the Fatka market.

Marketing of Rice—What the cultivators usually sell is paddy, although the sale of dhenki-husked rice is not unknown in the villages. The cultivator generally sells to the village merchant or paikars or beparis at the nearest hat The latter sometimes operate on their own and sometimes as agents of the aratdars or the rice mills The second stage in the marketing process is reached when the commodity reaches the big markets where the Aratdars or the rice mills are situated The villagers sometimes bring the produce direct to the big markets, but usually they operate through dalals or beparis The third stage is reached when paddy and rice begin to move from the moffusil centres. The aratdar sells his paddy either to the paddy merchants at Chetla, Ultadanga, Ramkrishnapur, or Hatkhola or to other aratdars of the neighbouring districts. The rice husked by the mills is sold to different consuming centres both inside and outside the province. The last stage is concerned with the export of paddy and rice to foreign countries through exporting houses in Calcutta.

Difficulties of Agricultural Marketing

1. There are too many middlemen who eat up the marketing profits. The cultivator gets a price which is very much lower than the price which the final consumers pay.

2. The village markets are not regulated by law. The cultivators have often to pay a large number of allowances and deductions.

3. Weights and measures in the markets are not standardised.

4. The cultivators have no staying power. They cannot hold out for a better price but have to sell immediately after the harvest at prices dictated by the beparis.

5. Adulteration and damping are often practised both by the cultivators and the beparis.

6. There is no well-recognised grading of Indian agricultural products as a result of which sale by sample and description is discouraged.

7. The ignorant cultivators do not usually know the actual prices ruling in the big markets. They fall easy prey to the blandishments and bludgeonings of itinerant dealers and mahajans.

Remedies—(1) Regulated markets should be established by laws in the rural areas. Such markets have proved successful in the marketing of cotton and wheat in Bombay, Punjab and Madras. In these markets there are official quotations of rates and adulteration and unfair deductions are made illegal. (2) Weights and measures should be standardised (3) The establishment of licensed warehouses for jute will enable the growers to get advances and would enhance their staying power. (4) Proper grades should be introduced by a state authority in agricultural products. The grading done by the Marketing Officers of the Government has been quite successful (5) Marketing surveys should be undertaken with regard to all the principal products. Valuable work has been done in this direction by the Government. (6) It is essential to improve village transport without which marketing reforms are impossible.

Q. 27" "At his best the Indian cultivator is as good as any in the world, while at his worst it can be said that his miserable condition is brought about largely by an absence of facilities of improvement which is probably unequalled in any country"—Elaborate. (Cal. B.A. 41.)

Ans. *The man behind the plough* has been the recipient of much attention in recent years He is often denounced as ignorant, conservative, superstitious and extravagant. He has little ambition and no initiative. He accepts whatsoever blessings Nature bestows on him, with a niggardly hand and resigns himself passively to cruel Destiny. He cannot rise above custom and has little appreciation of progress in equipment and methods of tillage Though shrewd and often unscrupulous in his business dealings he foolishly allows himself to be defrauded by middlemen and mahajans. He is fundamentally individualistic in his outlook and refuses to learn the lessons of mutual help and co-operation. Essentially short-sighted, he lacks the stable virtues of honesty, punctuality and thrift.

On the other hand, the Indian peasant is often idealised in a Tolstoyan manner. He is the ceaseless toiler who bears the heavy cross of human sorrow and suffering. Sustainer of society he is yet cheated, exploited and tortured by all classes of society, the landlords and tax-gatherers, the lawyers and policemen, the pandits and the moulvis, the baboos and the baniyas.

None of these pictures is wholly correct. Each contains an element of truth. Many years ago, Dr. Voelcker, a distinguished student of Indian agriculture bore testimony to the intelligence, patience and the

industry of the Indian agriculturists. Indeed his methods of cultivation are perfectly adapted to the conditions under which he works. Deeper study of Indian agriculture reveals an unsuspected intelligence and reasonableness in the methods of agriculture That the Indian cultivator is not essentially unprogressive is proved by the fact that he is quick to adopt a change either in implement or in seeds or in methods whenever the change is demonstrated as advantageous to him and is not beyond his financial means. His so-called improvidence is often the result of the value he attaches to social festivals and communal life. His respect for ancestral debts springs from piety and ancestor-worship which are basic traits of Indian culture. He is the double victim of a feudal land system and capitalist money economy. The laissez faire policy of an alien capitalist Government has sacrificed him, bound hand and foot, at the altar of the dual deity of feudalism and capitalism.

It is the duty of the state to free him from the fetters that bind him to his miseries. The feudal land system should go. The peasant must be given opportunities of education. Capital should be placed at his disposal in larger quantities. His bargaining position in the market should be improved. He must be nursed in hope and relieved of the fear complex. He must be assured a fair price and a decent standard of living by the society. If these things are done, he will be found not unwilling to co-operate in the improvement of his environment, *e.g.* improvement of public health and co-operative farming An active policy of agrarian reform

and agricultural improvement pursued by the State is certain to evoke in the peasant those qualities of ambition, self-help and enterprise so essential to agricultural prosperity.

CHAPTER VI

Land Revenue and its Problems

Q. 28. Describe the systems of land tenure prevalant in India. (Cal. B. A. 24, 27; B. Com 33, 38; Dac. 41; All 35; Delhi, 34, 37; Agra, 39; Punjab, 40).

ANS. *Land tenure may be defined as the system of* rights and responsibilities of individuals owning or cultivating the land *vis-a-vis* the state regarding the payment of land revenue. The system of land tenure in India displays every conceivable variety. The differences are due to variations of local custom and historical accidents. The principal types of land tenure are the following: (1) Zamindari, (2) Mahalwari and (3) Ryotwari.

1. *Zamindari:* Under this system the Zamindar is recognised as the proprietor of the land subject to regular payment of land revenue. The Government settles land revenue with the Zaminders. The land is cultivated by tenants who pay rent to the landlords. There are two types of Zamindari settlement.

(a) Permanent as in Bengal and Bihar; and

natural leaders of society. (4) Economically, it has increased the ryots' power of resistance to famines, by augmenting their material prosperity. (5) Finally, it has secured the avoidance of evils connected with temporary settlement, which is the necessary alternative to the Permanent Settlement. (That is, it has saved the cultivators from much harassment and expenses during the time of settlement revision, and has also avoided the evil practice on the part of the ryots to keep the lands fallow at the time of revised settlement in order to escape enhancement of rent.)

Some of these arguments are, no doubt, true, but they have now-a-days lost much of their old force. The defects of the system far outweigh its advantages. In the first place, though it has enabled the State to have a fixed and stable revenue, this has been achieved at a great sacrifice to the State of all prospective increase of revenue. The revenue was fixed at the time when settlement had been made at about Rs. 4 crores, on the basis of 10/11 ths of total rent collection as the Government share. While the Government share has remained practically stationary, the Zamindars' rent collection now-a-days has increased up to a little over Rs. 16 crores That is, the Permanent Settlement has entailed a great loss of revenue to the State. Secondly, it has led to sub-infeudation of lands on an extensive scale. The Zamindars parcelled out their lands to others, who in their turn did the same. Thus a host of middlemen, known as Patnidars, Darpatnidars, Jotders, etc., grew up between the Zamindars and the ryots. Thirdly, it was a mistake not to make provisions for the protection

of the ryots, who were consequently rack-rented. Fourthly, it has given rise to "absentee landlordism" with all the attendant evils of unsympathetic management by agents and consequent litigation and unhappy relations between the Zamindars and the ryots. Fifthly, it has checked the growth of commerce and industry in the country by diverting a disproportionately large share of the earnings of the community to the purchase of landed estates, ownership of which confers still to this day a false prestige in social hierarchy. Lastly. the objectives that weighed with the framers of the Settlement in those days no longer exit to-day. The argument of the political support of the Zamindars is a dead one to-day. The growth of the middle class, who are mainly instrumental in spreading culture and education, cannot be ascribed solely to the Permanent Settlement, because the middle class also exists in ryotwari tracts Again, whatever agricultural prosperity the ryots enjoy is not due to any efforts on the part of the Zamindars for the improvement of agricultural operations, but to other factors, such as the fertility of the soil, roads, railways, peace and tranquillity within the country, expanding overseas markets for India's agricultural products, etc.

Q 30 Summarise the arguments for and against the scheme of state purchase of Zemindari estates. All. 39.

Ans. The Bengal Land Revenue Commission under the Chairmanship of Sir Francis Floud examined the question of the abolition of the Zemindari system. The majority of the members were of the opinion that whatever might have been the justification for the

Permanent Settlement in 1793, it is no longer suitable to the conditions of the present time. Under it, the Government has suffered a serious financial loss. The growth of sub-infeudation has burdened land with an army of rent receivers who do nothing to improve land. Land in Bengal is nobody's concern. There is no direct contact between the people and the Government in Bengal. In no other province are state officials so ignorant of the real conditions of the people. Such measures as consolidation of holdings and land improvement cannot be undertaken in Bengal owing to the existence of landlordism. The commission therefore recommended that the State should purchase the interests of all rent receivers standing above the tenants. Compensation should be paid to the landlords at a rate of 10 or 12 or 15 times the net profit of proprietors and tenure-holders The net profit is to be calculated by deducting from the gross assets of an estate, all taxes paid to the state and reasonable costs of management. Compensation should be paid in cash if possible The real justification of state purchase of Zemindaries lies not in any immediate financial gain to the Government (about which there are grave doubts) but in the posibility of carrying out those measures of agricultural improvement and reform which are long overdue and in the absence of which rural economy in Bengal is going to pieces.

Mr. Gurner was entrusted by the Government of Bengal to examine the practicability of the Floud Commission's plan. Mr. Gurner's report was favourable. He considered the scheme to be desirable and financially

practicable. On the basis of the Gurner Report, the Government of Bengal have adopted the policy of acquiring Zemindaries by stages. The experiment was started in Faridpur. The war has probably interfered with the Government's policy in this matter. Meanwhile, in accordance with the Floud Commission's recommendations, the Government of Bengal have imposed a tax on agricultural incomes. But the proceeds of the tax are not earmarked for agricultural improvement as the Floud Commission suggested. The tax has been imposed simply to finance a war-time budget deficit.

The Minority of the Floud Commission representing the landlords strongly opposed the scheme of state purchase of Zemindaries. Their arguments may be briefly summarised thus : (1) It would be a breach of agreement with the landlords. (2) It would be financially ruinous to the Government. The Bengal Government is a bankrupt one. For it to undertake the vast scheme of purchasing Zemindaries would be a speculative gamble. Management of Zemindaries by highly paid state officials would be too costly. (3) The position of the tenants would be hardly better. Even now, the position of the Khas Mahal tenants is no better than that of the Zemindari tenants. (4) It will ruin the middle class of Bengal. (5) If compensation is paid at 10 times the net assets, the Zemindars will lose the whole of their incomes. If it is paid at 15 times, the State will make no profit. (6) What the rural situation demands is that the state should undertake measures of land improvement and agricultural reforms These measures can be introduced even

under landlordism. It is wrong to say that state purchase is necessary for agricultural progress.

Q. 31. Explain the relative merits and defects of the Permanent and Temporary Settlements of land revenue in India. Which do you advocate? Cal. B. A. 31, B. Com. 33, 34, 35; Agra 35, 42; Dac 43, Punjab 40, Delhi 39.

Ans The Permanent Settlement exists in Bengal and Bihar and parts of Madras and U. P. Lord Cornwallis introduced this system in 1793 Lord Cornwallis' object was to create a class of landlords on the English model in India. These landlords would look after their estates, spend capital on land improvement and would themselves be farmers on a large scale. They would prove to be a source of great strength to the British rule in India. The Permanent Settlement would encourage the extension of cultivation and stabilise the collection of land revenue. For the purpose of making the collection stringent and regular the Permanent Settlement was coupled with the Sunset Law. Regarding the tenants, Lord Cornwallis hoped that the British system of courts established by him would give protection to them on the basis of the customary *parganah* rates then prevailing.

Mr. R. C Datta was a great admirer of the Permanent Settlement. He attributed to it the relative prosperity and freedom from famines enjoyed by the people of Bengal. The average rental paid by an occupancy ryot in Bengal is lower than the average land revenue payable by the ryot in the ryotwari areas. The Permanent Settlement has created a strong and numerous middle class in Bengal who have been responsible for its

political and cultural progress The Zemindars are the natural leaders of the people and between them and the tenants are personal ties which cannot subsist between Government officials and the raiyats. The Zemindars have liberally spent money on education and charitable endowments and have also been pioneers in the industrialisation of the province.

These claims on behalf of the Zemindars were undoubtedly partly true in the nineteenth century but they no longer hold good. The Permanent Settlement is a relic of the feudal age grafted on predatory capitalism. Under this system the people of Bengal suffer the two-fold miseries of feudal oppression and usurious capitalism. The Zemindars have done nothing for land improvement. They have proved to be as bad as the Irish absentee landlords, living an idle and parasitic life in cities, away from their estates. It has made the land revenue inelastic, thus imposing a severe handicap on the finances of the Bengal Government. It has led to an acute sub-infeudation of landed rights. A hierarchy of rent receivers most of whom are themselves persons of moderate means is the greatest obstacle to the improvement of land. It has encouraged the endless subdivision and fragmentation of the rights of landholders. The middle class in Bengal being semi-feudal has turned its face away from modern large scale industry. Unable to live comfortably in the unearned income from land and failing to make money by industrial enterprise, it has developed a fantastic and anarchic outlook which bodes ill for the political and cultural progress of Bengal. Backward in weatlh and industry

Bengal is falling backward in political and cultural leadership

The ryotwari settlement was first tried in Madras and thence extended to Bombay and Assam. The settlements in the C. P. and the Punjab are virtually ryotwari This system is temporary and revised every 30 or 40 years. The merits of this system are as follows The state enters into direct contact with the raiyats and the settlement records are of great help in administration. The land revenue becomes elastic and can be raised from time to time as land values increase. In times of distress, the Government can give relief in the form of tax remissions This is not possible in Zemindari areas Measures such as land improvement and consolidation of holdings become easier of accomplishment under temporary ryotwari settlement.

But the system has its defects too The uncertainty of land revenue demand retards the expenditure of capital on land On the eve of a fresh settlement, the cultivators often deliberately keep their lands idle or ill-cultivated to escape heavy assessment. These evils have, however, largely disappeared. The principles of assessment are now fairly widely known and there is little danger that the fruits of capital investment made by the raiyats will be seized by the state. Many reformers have advocated that the temporary settlement should be a settlement for 99 years so that it may possess the practical advantages of a permanent settlement. But this would make the system inelastic.

Whether permanent settlement or temporary settlement is better is a question that is difficult to

answer. So long as the state regards itself as the true landlord, attempts to squeeze the maximum out of the peasent and pursues a laissez faire policy in all other respects, the temporary ryotwari system can do little good. Landlordism, whether it is state landlordism or private landlordism is always bad. But the state is on the whole more amenable to moral considerations than private individuals. The state in India is gradually being subjected to democratic control. Hence the ryotwari system offers possibilities of gradual betterment in the position of the peasants Since the introduction of provincial autonomy, land revenue demand in ryotwari areas has been considerably reduced. Land must belong to the tillers and land revenue should be levied as a tax on agricultural income on a progressive scale. This is perhaps the best solution.

Q. 32. Indicate the principles on which land revenue is assessed in the Ryotwari Areas. (Cal. B.A. 38, 40; B.Com. 25, 32; Nag 36).

The first stage in the assessment of land revenue is the undertaking of a cadastral survey and the preparation of a record of rights. At the time of re-assessment, a re-survey is often made and the Record of Rights is brought up-to-date. This preliminary work being accomplished, the task of assessment begins.

The general principle of assessment is that the State has a right to take a portion of the *net assets* of land. Under the Saharanpur Rules, it was laid down that the land revenue demand would not exceed 50 per cent of the net assets. In recent years the percentage has been still further lowerd. In the U.P. the Government's

demand is between 30 and 40 percent of the total assets. In the Punjab the Government claims one-fourth of the net assets. In Madras the Government claims a maximum of 50 per cent which applies only to the best lands.

The calculation of the net assets, *i.e.* the net profits from the cultivation of land shows great diversity. In Madras the procedure is like the following :—Soils are first divided into main classifications such as the black cotton soil, the red soil etc. These classes are again subdivided according to the amount of clay or sand that they contain. Actual experiments are carried out by the Government to determine the productivity of each class of soil. The total product per acre (of a particular kind of soil) is multiplied by the average of the prices (of a given crop) prevailing during the last 20 years. That gives the gross money income, certain deductions are made, *i.e.* cultivation costs including depreciation of cattle and agricultural implements, deduction on account of unproductive areas such as channels and embankments, cost of cartage to the nearest market, difference between the local selling price and the market-price, etc. In this way net assets are determined.

In Bombay the Government proceeds not on an experimental basis as in Madras, but on an empirical basis. The total land revenue demand from a taluqa is revised at the time of re-assessment on the basis of general considerations, such as, changes in land values and grain prices, general prosperity, extension of irrigation, etc. The total demand is then distributed among the different types of soil graded in respect of

their fertility and situation. There is an elaborate land revenue code providing for deductions, appeals and allied matters.

Q. 33. What are the factors determining rent, and how is the latter affected by each of these factors? Define economic rent. Can the land revenue of India be described as rent? (B.Com, 1929)

Rent is that portion of the produce of the earth which is paid to the landlord for the original and indestructible powers of the soil. All lands are not equally fertile. There are inherent differences between different pieces of land. Some are more *fertile*, others are less so. The increase in population compels the cultivation of inferior grades of land. This is due to the fact that the Law of Diminishing Returns operates much more earlier in agriculture than in industry. Hence, economic rent consists in the differential return which the owner of superior lands derives over the least productive land in use. The produce on the marginal land' just covers the costs of cultivation, whereas the superior land yields a larger return for the same amount of labour and capital on both the plots of land. Difference in these two returns measures the economic rent.

From the financial point of view, rent is fixed by the price of the produce. When the price of agricultural produce is high, the rent will also be high; and when it is low, the rent will also be low. Given the price of produce, money rent is determined according to the difference in the fertility or in situational advantages of different plots of land. The more fertile the land is

the greater it will respond to the application of the same dose of labour and capital than in the case of inferior lands So the produce will be greater and the rent higher. Again, the nearer to the market the land is, the higher will be its rent. The opposite will be the case, if the land is further away from the market

The question whether land revenue in India is rent or tax formed the subject matter of a long controversy during the last century. The claim that it is rent rests on the theory of universal landlordism of the state It is argued that land revenue should be regarded as rent because :—

(1) The State is the owner of all lands ; (2) the State performs some of the functions of a landlord, such as advancing loans to ryots, sinking of tube wells, etc ; and (3) the land revenue differs from a tax and is akin to a rent in that, like a tax, it cannot be altered to suit the exigencies of the State.

But against this it is argued that there are some functions which the State does not perform and that though land revenue could not be changed very often, the method of assessment and collection resembles that of a tax. The question, therefore, resolves into this ; who is the owner of the land ? During the Hindu and Muhammedan rule the State never claimed absolute ownership of land. The British Government also recognised private property in land and conferred proprietary rights over large tracts of the country to the Zemindars As regards ryotwari tracts it is argued that the State retains a residuary right in the land, for (*a*) the tenants are called "occupants" and not

"owners"; (*b*) the State can attach the land of the ryot in case of default of revenue; and (*c*) the sanction of the State is necessary to divert land from agricultural to non-agricultural uses. But these arguments do not seem convincing enough. It might be pointed out that the word "occupants" does not make any difference in the real position of the ryots. As regards the second argument, all kinds of private property are liable to attachment by the State in case of default of any State dues. As regards the third argument, it might be pointed out that such restriction on the use of private property by the owners is nothing unusual and is very often done with justification on grounds of public policy. So, in view of the fact that the State never claimed absolute ownership of land, that Zemindars enjoy proprietary rights in land in permanently settled areas, and that the ryots are free to sell or mortgage their lands in ryotwari areas, it would not be unreasonable to conclude that land revenue is a tax. This is the view of Baden-Powell. The Taxation Enquiry Committee has also endorsed this view But the controversy has now-a-days become, in the words of Baden-Powell, a "profitless war of words", because all important questions of land revenue policy, such as the pitch of assessment, period of settlement etc. are settled without any reference to the merits of this controversy.

Q. 34. What are the implications of the theory of State landlordism in India? Criticise the theory. (B.Com. 1931.)

(See latter portion of answer to Q. 33)

Q. 35. Assess the relative merits and defects of the

Permanent and Temporary Settlements of land revenue. Which will you advocate? (B.Com. 1934, 1935.)

(See answer to Q. 31.)

Q. 36. Compare and contrast the land system of Bengal with that of Bombay. (B.Com. 1938.)

Over large parts of Bengal the Premanent Settlement of land tenure prevails, while the Ryotwari System is found in Bombay.

(For the relative merits and defects of both the systems see answer to Q. 31.)

Q. 37. Give a critical account of tenancy laws recently enacted in Bengal.

Under the Permanent Settlement Regulations the Government retained to itself the power to enact legislation to protect the customary rights of the ryots. The Government, however, thought it inexpedient to do anything that would excite the distrust of the landlords, and it was hoped that they would themselves come to an understanding with the ryots and respect their rights. On the contrary, legislation was enacted to assist the landlords in realising their dues from tenants in order that they might pay their Government dues with punctuality. The situation grew worse for the ryots, and it was not until 1859 that the Government woke up to the gravity of the situation and passed the Tenancy Act of 1859. Since then a series of legislations were passed in various provinces to protect the interests of the tenants. The inauguration of Provincial Autonomy in 1937 saw an acceleration in the process of law-making, especially of laws purporting to give relie

to the ryots. The legislators had to do this for implementing the pledges they gave at the time of election.

The present Act in force in Bengal is the Tenancy Act of 1885, as amended in 1928 and 1938 The Act of 1885 divided the tenants into three classes—(1) Tenure-holders, *i.e.*, persons who held lands for collecting rents ; (2) Ryots and (3) Under-ryots. The ryots were again subdivided into two classes—occupancy ryots and non-occupancy ryots The occupancy ryots were those who held land for a period of 12 years without any break. They could not be ejected so long as they paid rents punctually. Their rents could not be increased except by a decree of the court and only in those cases where there was an increase in the value of the produce, or an improvement done by the landlord, or there was enhancement of rent for similar land in the neighbourhood. Once enhanced, rents could not be increased again within 15 years, and the rate of enhancement could not be more than 2 as. in the rupee. The under-ryots were also given similar privileges. The rate of enhancement in their case could not exceed, 25 p. c. of the existing rent, and their rents, once enhanced, could not be enhanced again before 15 years. They also could not be ejected except for certain specific reasons. The main principles of the Act were fixity of tenures and fair rents. These two objects were sought to be achieved, because otherwise the tenants would have no incentive to improve their lands. If tenants could be ejected at will by the landlords, or if their rents could be increased at random, there was no

reason why the tenants should spend their time or money in improving their lands. In 1928 an Amendment to the Tenancy Act of 1885 was passed. The tenants were given the right to transfer their holdings on payment of a transfer fee of 20 p. c. of the sale price to the landlords. Tenants were also given the right of cutting trees and excavating tanks, etc. on their own lands. Another Amending Act was passed in 1938. This Act has prohibited the enhancement of rents for the next 10 years from 1937, and the maximum rate of interest on arrears of rent has been fixed at $6\frac{1}{4}$ p. c. Ryots can now freely transfer their holdings without paying any transfer-fee to the landlords. The Act has also given the tenure-holders the right to surrender their tenures with the sanction of the Court. The Act has conferred similar rights on the under-ryots also. Provision has also been made for imposing penalties on the landlords, if they or their agents realise any illegal exactions or *abwabs* from the ryots. Thus the ryots have been given fair protection by means of legislation.

Q. 38. "Rent in India is influenced by custom, competition and legislation". Explain. (B.Com. 1941.)

The land revenue system in India has never been determined in a scientific manner, especially in the early days of the Company's rule The British Government did not want to antagonise the vested interests and made settlements for land revenue collection with as little disturbance to the then existing practices as practicable. The result has been that no uniform system of land revenue

has been built up throughout India. Rents in parts of the country are, fixed in a variety of way. In some cases rents are controlled by tenancy laws, in others force of custom tends to limit the right of the landlord to exact a full economic rent, while in some areas the rents of occupancy tenants are actually fixed by the settlement officer. In the permanently settled areas the force of custom is the determining factor in fixing rents The revenue to be paid by the Zemindars was fixed under the Regulation of 1793 at $\frac{10}{11}$ths of what they received as rent from the ryots. Their revenue liability was fixed in a rough and ready fashion without any survey or record of landed rights and interests, or any investiga-tion into the productive capacity of the different classes of soils. The Zemindars still pay the same revenue as they did in 1793, though in the meantime there has been considerable increase in land values. In the other extreme we find that under the Malguzari Settlement of the C. P. the settlement officer not only fixes the revenue demand to be made from the Malguzars but also determines the rent payable by practically all classes of tenants, to the Malguzars. In assessing the demands made on the various classes, the settlement officer is guided by legislation. In the ryotwari tracts assessment is made after every 15 or 20 years, and in making assessment the settlement officer pays greater attention to the pure economic rent of the land, *i e*, rent as understood in Economics. It is not incumbent that the tenant would be given the right over the land at the next settlement If the tenant is unwilling to accept the rent as fixed by the settlement officer, some

other enterprising tenant might step in and take over the right over the land by entering into an agreement with the Government. Hence it has been truly said that rent in India is influenced by custom, competition, and legislation. None of these factors singly determines the rent, though the part played by each in the fixation of rent may be different under different systems of land tenure.

CHAPTER VII

Rural Indebtedness

Q. 39. Analyse the causes of agricultural indebtedness in India. Discuss the steps taken by the Government to afford relief to the indebted agriculturists.

Discuss the question of rural indebtedness. To what extent has the debt legislation enacted in the different provinces of India helped to solve the problem ? (Cal. B A 33, 36 ; B. Com. 39, 41 ; Dac. 40, 42, 43 ; All 37, 42 ; Punj. 35. 41 ; Pat. 40 ; Delhi 37, 39.)

One of the chief causes of agricultural backwardness of India is the existence of a crushing burden of debt on the ryots. The distressing character of these debts is that they are mostly unproductive. If indebtedness is a cause of poverty and agricultural decadence, the converse of it is equally true and whatever explains the poverty of the rural masses, therefore, explains agricultural indeb-

tedness. The following factors may, therefore, be regarded as the chief causes of rural indebtedness. (1) The main cause that compels the agriculturist to borrow is his extreme poverty. The reasons of his meagre and low productivity are the excessive pressure of the population on the soil, excessive subdivision and fragmentation of land, insecurity of rainfall and hence of harvests, and the absence of subsidiary occupations. As his income is low and precarious, it is not possible to lay by something for the rainy day. Therefore, in any bad year he has no other alternative, than to borrow at excessively high rates from the *Mahajan*. (2) The habits of the ryots are also to some extent responsible for their indebtedness. They are too fond of litigation which is an active factor in increasing their financial embarrassments. They would not hestitate to borrow at high rates to meet the expenses of conducting a useless law suit (3) Social customs can also be regarded as a cause, which sometimes drive the ryot to the grip of the *mahajan*. For example, on such occassions as *sradh* or marriage, he has to borrow for giving a caste dinner or for paying dowry. Although the importance of this cause has been sometimes over-estimated, yet the fact remains that there are numerous instances when heavy debts have been incurred on an occasional marriage or *sradh*, from which the borrower could never extricate himself completely. (4) Ancestral debt also is a contributory factor of the existing indebtedness. Debt is passed on from "father to son, generation after generation, without any equitable restrictions". Hence it has been said that the ryot is born in debt, lives in debt,

and dies in debt, leaving his heirs in debt. (5) The money-lender and his usurious practices have often been regarded as a source of the continuance of indebtedness. The amount originally borrowed may be small, but it goes on accumulating due to a variety of circumstances. The rates of interest charged by the *mahajan* before the money-lenders' acts were passed were very high. They were seldom less than 25 p. c., and sometimes as high as 100 p c It is, therefore, easily understandable that, if for any reason the ryot fails to repay the debt, the debt, compounded at such high rates, rapidly assumes alarming proportion. Due to the malpractices of the *mahajan e g.*, the falsification of accounts, non-payment of any receipt for money received, etc., the ryot finds himself unable to get out of his debt. (6) With the advent of the Pax Britannica, growth of towns, development of roads, and rise in the price of agricultural produce augmented the credit, and hence the borrowing capacity of the ryot The land revenue system also conferred a definite transferable right to the ryot. Hence he could easily borrow from the money-lender who was only too eager to lend, as he could easily realise his dues through the Civil Courts. As a result, there has been a great increase in the volume of mortgage debt. (7) Lack of elasticity in the collection of land revenue may also be taken as a cause for promoting indebtedness. It is not inconceivable that land revenue may be demanded at an inconvenient time and the cultivator has to borrow in order to pay the rent

Various enquiries have been made from time to time to ascertain the extent of agricultural indebtedness in

India. The latest investigation was made by the Provincial Banking Enquiry Committees in 1929-30. The Bengal Committee estimated the total agricultural debt for the whole of Bengal at Rs. 100 crores On the basis of the estimates made by various Provincial Committees, the Central Banking Enquiry Committee put the total agricultural debt of India at Rs. 900 crores. Since then agricultural debt increased appreciably because of the depression of 1929, when prices of agricultural commodities fell to abnormally low levels

The effects of this crushing burden of indebtedness are disastrous. Heavily indebted ryots are forced to part with their holdings, and thus has grown up within the country a large class of landless labourers. Very often the ryots borrow from the *mahajan* on condition that after the crop is harvested, the *mahajan* shall have the first claim to buy up the crop. Under such circumstances ryots can scarcely hope to get a fair price for the produce There is, therefore, no incentive for improving agriculture. Interest payments are also demanded with great exactitude and rigour. As a result of such a crushing burden of indebtedness, an agrarian discontent is brewing up within the country and is daily gaining momentum, and reports of agrarian riots from the moffussil have become not uncommon these days. The problem therefore calls for an immediate solution.

The measures taken by the Government to prevent agricultural indebtedness have been divided by Sir Edward Maclagan into four heads :

(1) Measures taken to encourage the avoidance of

unnecessary debts. Efforts made to popularise primary education may be classed under this head, because the ryots can then deal with the money-lenders on an equal footing.

(2) Measures for the improvement of the civil law, *e.g* the Deccan Agriculturists' Relief Act of 1879, the Usurious Loans Act of 1918 etc. Under the former Act the Courts were empowered to go behind the contracts and reduce the rates of interest if they were unconscionable. But the Act, on the whole, has been found ineffective and even injurious. The success of the Usurious Loans Act may also be regarded as dubious, as anti-usury legislation has always failed in all countries. Recently the Government of Bengal has also passed the Bengal Money-lenders Act, 1940, which fixes the maximum rate of interest at 8 p c and 10 p. c. for secured and unsecured loans respectively.

(3) Measures for restricting the alienation of land, *e.g.* the Punjab Land Alienation Act of 1901. The Act forbade the sale of agricultural lands to non-agricultural classes, nor could the lands be mortgaged for a period of more than 20 years. The success of the Act in preventing the expropriation of the peasant proprietor by the money-lender is undoubted. But it has at the same time handicapped agricultural progress by preventing educated people with capital, intelligence and enterprise to take up agricultural pursuits. It has also led to a contraction of credit available to agriculturists. Another evil has been the emergence of the agriculturist money-lender, no less unscrupulous than the old money-lender, and to whom the Act does not apply. It is

also open to doubt whether the Act has materially reduced the evil of indebtedness.

(4) *Measures undertaken to provide credit or reduce existing debt*—Several Taccavi Loans Acts were passed during the fourth quarter of the last century to grant loans to the ryots. The most important of these were the Land Improvement Loans Act of 1883 and the Agriculturists' Loans Act of 1884. Under the former Act long-term loans were granted for effecting permanent improvements on land, *e.g.* tanks, wells, embankments, etc.; while under the latter Act, short term loans for current agricultural needs, *e.g.* the purchase of seeds, cattle, manure, implements, etc. were made. The system of providing loans by the Government does not go to the root of the matter in that it fails to exercise any educative influence on the character of the ryots. Moreover, Government funds being limited, loans cannot be made to the extent required. As a means of financing agriculture, the system may, therefore, be regarded as a failure.

(5) *Co-operative Movement*—All these measures, however, failed to solve the main problem of indebtedness and the provision of a cheap and efficient system of agricultural credit still remained a desideratum. Besides these measures, the Government, therefore, encouraged the growth of co-operative movement in this country as a means of combating rural indebtedness and supplying credit to the agriculturists. Under the Acts of 1904 and 1912, a large number of co-operative credit societies have been established all over the country. In spite of ample government assistance the movement

in this country cannot be regarded as having achieved success to any great extent, and most of the societies either do not exist or are in a moribund condition. Besides, the co-operative movement has not so far been of much use in inculcating among its members ideas of thrift, honesty and a better social standard. Suitable methods should have to be devised and schemes adopted for a rehabilitation of the movement.

(6) In recent years another method, *viz.* that of conciliation and composition of agricultural debts, is being tried in several provinces. The Bengal Agricultural Debtors Act was passed in 1935. Under the Act the total debts of the ryots are composed and scaled down to what is fair and reasonable and within the paying capacity of the borrowers, and the creditors are then induced to accept the sum in easy instalments spread over a number of years. Though such a drastic measure is unnecessary, the machinery of rural credit has, however, broken down in the absence of any alternative source of credit being provided to the agriculturists. The problem of indebtedness and agricultural credit still remains. A real and lasting solution can only be found by providing three things: provision should be made for supply of cheap credit by an extension of joint stock banking and co-operative credit societies; the ryots should be educated in the habits of thrift and saving; and the adoption of better cultivation that would increase the income of the ryots.

Q. 40. Discuss the debt legislation which has recently been enacted in Bengal. (B. Com., 1939.)

One of the serious drawbacks of Indian agriculture

is that the ryots are heavily indebted to the village money-lender, with the result that they do not feel encouraged to improve agriculture as a means of improving their condition. The Central Banking Enquiry Committee estimated the total agricultural debt for the whole of India at Rs. 900 crores. With the onset of the depression in 1929, things worsened. Prices of agricultural commodities fell to abnormally low levels, and the cultivators were forced to borrow from the *mahajan*. The burden of debt must have, therefore, increased considerably since then. It was, therefore, felt that some drastic and thorough steps should be taken to relieve the burden of this colossal indebtedness. Hence various provinces and Native States adopted measures for a scaling down of past debts to manageable proportions, either compulsorily or on a voluntary basis. The Bengal Government also passed a similar Act in 1935. Under the Bengal Agricultural Debtors Act, 1935, the Provincial Government has been empowered to establish Debt Settelment Boards for any area within the Province. Each Board shall consist of a Chairman and not more than 4 members, to be appointed by the Government. The Board shall settle the amount of the debt on an application either by the debtor or the creditor. On receiving a full statement of the debt, the Board shall use its best endeavour to induce both the debtor and the creditor to arrive at an amicable settlement. If the creditors to whom there is owing not less than 40% of the total debt, agree to an amicable settlement with the debtor, the Board may compel the other creditors to accept the settlement, provided

however that the terms are not less favourable than the terms of the amicable settlement. The Board can, on no account reduce any debt to an amount which is less than the original principal, unless creditors to whom there is owing not less than 60% of the total debt agree to the proposed reduction. If any creditor refuses to accept any settlement which is considered fair and reasonable by the Board, he would not be entitled to any costs in any suit for the recovery of such debt, nor shall a rate of interest higher than 6% on the principal debt be granted to him. No decree awarded by any court for the recovery of such debt shall be executed before other debts of the debtor, as settled by the Board, have been paid. Thus, it will be seen that the effect of the legislation in scaling down debts is not wholly voluntary; indirect pressure may be exerted on the creditors to accept the sum as settled by the Board. The settled debts are then to be paid in easy instalments spread over a period not exceeding 20 years Any creditor, if dissatisfied with the award of the Board, may file an appeal to an Appellate Officer appointed by the Government for the purposes of the Act. The Act has also made provision for an easy method of declaring a debtor to be insolvent. If any debtor fails to pay any amount under an award, even after sufficient time has been allowed to him, such amount shall be recoverable as a public demand, and his property will be sold.

The Act has brought about considerable reduction in the indebtedness of the ryots; but it has also created a false expectation among ignorant masses that

Government would allow all loans and debts to be written off. It should also be noted that the B. A. D. Act, while it has proved effective in relieving most cases of acute distress and genuine inability to pay, has not infrequently been taken advantage of to shirk payment even when the ability to repay is there. There is not in every case a purely economic reason for not meeting one's obligations. This non-payment mentality has been further ecouraged by irresponsible electioneering propaganda and the utterances of some among the public men. Such a mentality has also seriously weakened the existing credit mechanism and constitutes a grave O-men for the future. Due to these causes and also to the passing of the Bengal Money-lenders Act of 1940, the existing system of rural credit has practically broken down, and consequently a deadlock has been created in many cases. The money-lenders are unwilling to lend. The Government have not been able to provide an alternative source of credit. The hard-pressed ryot has, therefore, to sell outright his land or other belongings to secure money. It has, therefore, become necessary to devise a new and scientific system of rural credit. But the mere provision of cheap credit, unless accompanied by other healthy measures, would not cure the evil of indebtedness. The ryots' proneness to fall into indebtedness is too well-known. Once relieved, they would again relapse into indebtedness. The real and premanent solution of the problem, therefore, lies in three things. First, cheap credit should be provided by an extension of sound co-operative and joint stock banks in rural areas. Secondly, the ryots should be educated in the

habits of thrift and saving. Lastly, ways and means should be devised to improve agriculture in order that his income may be raised.

CHAPTER VIII

The Co-operative Movement in India

Q. 41. Describe briefly the organisation and functions of a village Co-operative Credit Society. (Cal. B A 19 ; B. Com. 33, 36 ; Agra 42 ; Dac. 38.)

Briefly describe the objects and functions of the Co-operative Credit Societies in India. What are the "Grain Banks" ? (B. Com. 1924.)

Rural Credit Society—The primary aim of Co-operative Credit Societies in India has been to wean over the poor cultivator or the industrial labourer from the grip of the *mahajan* by supplying him with cheap credit, and at the same time to turn him into a more efficient productive agent by inculcating in him the idea of thrift and self-help. Co-operative Credit Societies can be subdivided into two categories—*Agricultural* and *Non-Agricultural.* Agricultural Credit Societies are by far the most important and they form about 90 p. c. of the total number of co-operative societies of all kinds in India. They are organised according to the principles of Co-operation laid down by Raiffeism. For the formation of a primary agricultural credit society at least 10 members are necessary. The members must have attained majority and must belong to the same

village or group of villages. The capital of a society consists of entrance fees paid by members, and surplus assets in the reserve fund of the society. These are called internal sources. As distinguished from these, capital is also secured from external sources in the shape of loans and deposits from non-members and other societies, from Government and from the Central and Provincial Co-operative Banks The outside loans constitute the major portion of their working capital, the part played by share capital and deposits of members being comparatively insignificant. The next function of the society, after it has secured its working capital, is the granting of loans. Loans are granted to the members only for three objects : productive purposes, un-productive purposes, and repayment of old debts. Loans are said to be productive when the proceeds are utilised for current agricultural operations or for effecting permanent improvements on land. Unproductive loans for ceremonial occasions like marriage or *sradh*, though not theoretically desirable, are often allowed "to prevent the ryots from falling into the clutches of the *mahajan*" and are generally restricted to small sums. Loans are also given to the members for repaying their old debts to the *mahajan*, the idea being that they should be free from all outside obligations. The loans are generally given on personal guarantee, because the ideal co-operative security is furnished by honesty and character. Sometimes the security of two co-members is also demanded. Loans are given on mortgage security too, otherwise it is apprehended that material security might be pledged with the *mahajan*. The society should make arrange-

ments for an easy system of repayment of loans in instalments which are within the paying capacity of the borrowers. If the borrower fails to make punctual payment of instalments for some reason or other beyond his control, *e.g.* drought or excessive rainfall, an extension in the time of repayment is usually allowed. The societies are under statutory obligation to build up a sufficiently large reserve fund. In the case of societies having no share capital, the whole of the profit must be carried to the reserve fund. In the case of share capital societies, at least one-fourth of the profit must be carried to the reserve fund.

The chief peculiarity of a rural credit society is that the liability of its members is unlimited. All the properties of a member may be sold to pay the debts of the society in case of failure. All the members of the society constitute the General Committee which meets from time to time to decide important questions. The General Committee elects a Managing Committee to manage the affairs of the Society. The Managing Committee grants loans and performs other executive functions. The members of the Managing Committee do not receive any remuneration. Management is thus honorary and democratic.

Non-agricultural Credit Societies—The need for Non-agricultural Credit Societies is obvious. Artisans and industrial labourers are in a decadent condition. The middle and lower classes in society are being exploited by the *mahajan*. In order to save them from his rapacious grip and to alleviate their difficulties, it is equally necessary to have such societies in large numbers.

These societies partially make up the deficiency of joint stock banking in India, and provide a very useful training ground for banking practices. Though societies of such type are not so common as primary Agricultural Credit Societies, they have made some headway in recent years. These societies are organised on the Schulze-Delitsch model and are largely similar to Agricultural Credit Socities in their general working and constitution. Their liability is limited and they secure capital by entrance fees, shares, deposits and loans from central agencies. Such societies are particularly suitable for the reorganisation and revival of small cottage industries, like handloom weaving, by providing them with cheap capital. Weavers' co-operative societies have attained considerable success in several provinces. In urban areas too, there is considerable scope for the development of such societies for ameliorating the living conditions of wage-earners. But in the case of urban credit societies, there is the danger of these degenerating into mere money-lending institutions, thereby defeating their primary object of promoting thrift and inculcating the spirit of co-operation among the members.

Co-operative Grain Banks—The co-operative grain banks or *Dharamgolas* are the stores where grains are held in stock and lent out to the ryots in times of their need. The operation of these banks is similar to that of agricultural credit societies, the only difference being that while the latter lend money, these banks lend grains. The entire transaction takes place in grains. The objects of such banks are two-fold: (1) They

advance grain loans to the ryots after the harvest when the price touches the bottom. (2) They also help by advancing grain loans to the ryots in times of scarcity and famine in order to maintain the family of the ryots or to supply their seed requirements. The utility of these banks consists chiefly in helping the ryots in tiding over many an unforeseen contingency. The ryots' income is generally very low. Combined with this factor, their improvident habits do not allow them to save something which may help them in bad times. In an year of irregular rainfall the ryots, therefore, are driven to the clutches of the *mahajan*, and once they fall into the grip of the *mahajan*, it is hardly possible for them to extricate themselves out of the indebted position. In such a time the grain banks come forward to help the ryots by making advances of grain loans to them. Again, in times of famine or scarcity the ryots can borrow from the banks at lower rates of interest on condition of repayment of debts when the harvest is good. The loans are re-paid in kind at harvest time with the addition of 15 srs. per cent as interest. These grain banks thus do away to, some extent, with the necessity of Government relief in such times. The cost to the Government on account of famine relief becomes, therefore, lower. Thirdly, as the ryots have very little holding power, they are compelled to sell their produce immediately the harvest is over, when the prices are at their lowest levels. In such a time the grain banks come to their rescue by advancing grain loans for the maintenance of their family. After some time, when prices rise, the ryots can dispose of their crops. Thus the

banks help the ryots in getting a better value for their produce. In short, the grain banks combine in themselves the functions of warehouses and scarcity insurance societies. The formation of such banks is a comparatively easy affair. The members are not required to make any payment in cash ; to become shareholders of grain banks they only pay a small portion of their annual crop to the banks and the grains, thus collected in driblets, assume great proportions with the passing of years. 25 p. c. of the profits is kept as reserve. The rest is distributed as dividend to the shareholders but instead of being actually handed over to them it is included in their contribution for further shares. It is, therefore, desirable to encourage the establishment of grain banks as a means of alleviating some of the numerous difficulties of the Indian peasantry.

Q. 42. Explain the fundamental principles on which the success of co-operative societies in India depend. What do you consider to be the main difficulties in the way of carrying out these principles into practice ? (B. Com,, 1925, 27 ; Punj. 41, 42 ; Delhi. 38, 40 ; All. 38 ; Mad. 36.)

What are, in your opinion, the criteria by which the success of the co-operative movement should be judged ? Has the movements succeeded in Bengal ? (Cal. B.A. 35, 39, 41 ; B. Com. 31, 32 ; Dac. 39, 41, 43.)

The underlying object of co-operation is that an isolated and powerless individual can, by association with others and by moral development and mutual support, obtain the material advantages available to wealthy or powerful persons, and thereby develop himself

to the fullest extent of his natural abilities. By the union of forces material advancement is secured, and by united action self-reliance is fostered and it is from the inter-action of these influences that it is hoped to attain the effective realisation of a higher and more prosperous standard of life. Co-operation is a special form of economic organisation which has two aspects—moral and material, and where ethical motives are as strong as business motives. In a co-operative society the moral aspect is as much emphasised as the material, and special importance is attached to the educative influence of co-operation. The success of the movement in India should, therefore, be judged by these two tests :—(i) How far the movement has achieved the aims and objects of its pioneers in India, *i.e.*, how far it has succeeded in supplying the credit needs of the rural people, and (ii) secondly, how far it has succeeded in fostering a co-operative spirit among them ? The immediate cause that led to the introduction of the movement in India is the helpless condition of the ryot writhing in the grip of the *mahajan*. Hence the necessity of supplying the first test in judging the success of the movement in India. But the sure test of its success lies in the development of the moral aspect of the movement, in the fostering of a co-operative spirit among the Indian masses.

Benefits of the Co-operative Movement in India :— Judged by these two standards, the co-operative movement, as its achievements so far would show, has not been so successful as the pioneers had hoped, though it has not been altogether barren of results. The positive

results of the movement and the benefits conferred by it may be thus summarised. It has succeeded, to some extent, in giving cheap credit to the agriculturists and artisans. The competition of co-operative societies has compelled the money-lenders to reduce their rates of interest. Co-operative societies have helped the cultivators in purchasing seeds, implements and manures and selling agricultural produce on advantageous terms. Such tasks, as consolidation of holdings, cattle insurance, construction of wells for irrigation and improvement of public health, are performed by societies. Cottage industries receive substantial help in the form of credit and sale facilities from co-operative societies. On the moral side, the benefits are immense: Litigations, extravagance and gambling are at a discount in a good co-operative society and in their place will be found industry, self-reliance, straight dealing, education and thrift, self-help and mutual help.

Defects of the Co-operative Movement in India :— In spite of the many undoubted benefits conferred by the co-operative movement, it must, on the whole, be considered to be a failure. The defects of the movement may be thus summarised. In India the movement has been an official movement. Government officials and certain non-official gentlemen took the initiative in starting co-operative societies. As the co-operative societies promised to give a much higher rate of interest on deposits than the ordinary commercial banks, the middle class gentry thought it highly profitable to invest their money in the Co-operative Banks. The Central Co-operative Banks in which the savings of middle class and

some rich people were invested took the lead in multiplying the number of societies. Thus partly the desire for higher profits and partly misguided idealism induced the organisers of the movement to start too many societies in hot haste.

No consideration was given to the question, whether the cultivators who were members of the societies were fit to receive the societies and manage them according to the true principles of co-operation. The success of a co-operative society depends on the fulfilment of several conditions, *e.g.* proper selection of members, spirit of unity among them, the maintenance of a high standard of character and a keen sense of responsibility on the part of members, strict and honest management, close scrutiny of the position of the borrowers and supervision of the purposes to which the borrowed funds are put, unfailing regularity in the payment of dues to the society.

None of these conditions has been fulfilled in India. Members are selected in an extremely lax manner. There is neither unity nor mutual supervision among the members. The members lack both general education and co-operative education. To them the society is not their own organisation but simply a benevolent money-lender, a sort of Father Christmas who has come to them with bags of money. The depositors are mainly middle class gentry and the borrowers are mainly poor cultivators and between these two classes of people stands the Registrar like an umpire enforcing the rules of the co-operative game. But the difficulty is that the cultivators are too ignorant to understand

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these rules and too poor to follow them even if they had the necessary knowledge.

The net result is that most of the societies are in a very bad condition. The whole movement fell into utter discredit and a state of almost complete collapse with the onset of the great depression which caused severe fall in agricultural prices and reduced the cultivators into a state of insolvency. Defaults and overdues have reached a high figure. In 1939-40, of the loans outstanding to the amount of Rs. 23·14 crores, Rs 10 071 crores were overdue. In some provinces about 40 per cent of the societies fell in D and E classes, *i.e* almost hopeless and completely hopeless societies. The management is often in the hands of persons who are guilty of negligence, incompetence, corruption, nepotism and factionalism. Audit is very defective. Accounts are improperly kept and are often fraudulently manipulated. Reserves are shown without making provision for bad debts. Property valuation is not done properly and the borrowing capacity of the members is not accurately estimated.

The hectic growth of the movement and the non-observance of the fundamental rules of prudent finance are held by many distinguished authorities to be the principal causes of the failure of the co-operative credit movement. As Dr. J. P. Niyogi observes, "The inauguration of societies in haste during the post-war expansion phase was bound to be followed by liquidation at leisure".

While the weight of this opinion cannot be disregarded, there are also other causes of the failure of the

movement. There is too much official interference. Official control has created a sense of irresponsibility on the part of members and a sense of false security in the minds of depositors. In the absence of official control, the movement might have developed on slow but healthy lines. The Government has failed in its primary duty of supplying the societies with adequate finance. The Government has as yet failed to bring about the long-delayed reform of the land system. Control of agricultural marketing, consolidation of holdings, relief of the pressure of population on the soil—all these urgent reforms still await state action. So long as the majority of our cultivators are in a state of semi-starvation and insolvency, any bank managed by them is almost sure to come to grief. There is no magic in co-operation. It can only succeed in progressive social conditions.

Suggestions for remedying the defects of Co-operation—All these defects must, however, be squarely faced and attempts must be made to tackle them in a resolute manner. The movement is, therefore, now passing through a phase of healthy self-criticism and searching enquiries are made in order to revitalise the movement by rooting out all the defects. The Agricultural Credit Department of the Reserve Bank in its Statutory Report in 1937 has made the following suggestions for the rectification and consolidation of the movement in India: (1) The overdues and long-term loans of co-operative societies should be separated from short-term loans and placed on a sound footing. To do this, it would be necessary to scale them down to manageable proportions, partly by writing off from

reserve funds and partly by recovery from sale of part of the members' assets, and transferring the remainder to the Land Mortgage Banks. (2) The societies should build up strong reserve funds by providing for an adequate margin between their borrowing and lending rates. (3) In future greater caution should be exercised in making loans which should be restricted to cultivation expenses including limited advances for supplying intermediate credit for such purposes as the purchase of cattle and implements. So far as practicable, loans should be made for productive purposes. In order that there may not be any over-financing the normal income from the land should be calculated and should form the basis of loans. Members of societies should be prevented from borrowing from more than one source. (4) Primary credit societies should work as multi-purpose societies and try to bring the entire life of the cultivators within its limit. (5) Primary societies should be federated into small Banking Unions which will be able to concentrate in their hands all the functions of finance, supervision and education for which different agencies are employed at present resulting in a diffusion of energy and waste. (6) Co-operative marketing should be developed by making a start from the bottom, and the primary societies should be linked up with larger central sale societies. (7) The existing central and provincial banks should be re-organised. The large and unwieldy central banks should be split into smaller banking unions. The provincial bank should play a greater part in the direction and guidance of the movement. Both these types of banks should

maintain sufficient fluid resources, to build up adequate reserve funds, and make a strict provision for setting out overdues in the balance sheet in such a way as to present a true picture of their conditions. (8) Provision should be made for an intensive training of a suitable personnel to man co-operative societies. Special importance should be attached to the proper training of the Registrar who forms the pivot of the whole movement.

Q. 43. Enumerate the general principles on which co-operative credit societies can function and succeed. (B. Com. 1927.)

The co-operative credit societies, or for that matter the entire co-operative movement, should satisfy the following general principles, if they are to prove successful. If adequate attention is not paid to the observance of these principles, the mere establishment of a large number of societies would be of no avail and fail to achieve the object for which the societies are started, *viz.*, the amelioration in the miserable plight of the ryots. (1) *The principle of free association.* The association of individuals who form the society should be free or voluntary and not compulsory. They should be induced to join the society by moral persuasion. If compulsion is resorted to in enlisting members, they may not feel that corporative spirit in which each is for all and all for each. Thus the basic principle of co-operation may not be realised. (2) *The principle of proximity or contiguity.* The individuals forming a society should live near to one another, preferably in the same village or in two or three contiguous villages, so that members may have greater chances of knowing

one another intimately. It is then possible for a member to keep a watch over the uses for which borrowed money is utilised by other members. Hence the necessity of this principle. (3) *The principle of solidarity.* This principle implies that members exist for one another. It helps to foster the spirit of collective responsibility among the members. Hence the principle of unlimited liability is observed in the formation of co-operative. societies. It is the ethical side of co-operation (4) *The principle af economy.* The observance of this principle is necessary in order to ensure that the funds of the society are not wasted for unproductive purposes. The loans should not also be granted without adequate security—material as well as moral. Otherwise, the society may come to grief from non-realisation of the dues owed by the members. (5) *The principle of equality*, which lays down that every member must have an equal voice in the affairs of the society. They must feel that all members are equal ; otherwise there is the danger of nepotism in granting loans and in the management of the affairs of the society. (6) Lastly, *the principle of peace.* The society should not begin by antagonising the money-lenders and the middlemen. In that case the latter may so manoeuvre, that the society may find it extremely difficult to make any headway. On the contrary the society should try to win over the sympathy of the money-lenders to the cause of co-operation.

Unless these principles are strictly observed in practice, the success of a co-operative society becomes highly precarious. Over and above all these, the success of a society depends to a large extent on the fact that

it must satisfy a real want of the people, *i.e.*, the members joining the society must genuinely feel the need for co-operation as an instrument for attaining prosperity.

Q 44. Formulate a scheme for a Co-operative Society for the sale of jute so as to give the highest returns to the cultivator. (B. Com. 1928.)

Jute is a monopoly of Bengal. But the existing organisation of the jute trade prevents the vast millions of cultivators from obtaining their deserved share of the benefits of the monopoly. It is the lack of holding power on the part of the growers and the absence of suitable marketing facilities that prevent the producers of jute from securing a fair and economic price for the fibre. Hence it has often been suggested that if co-operative jute sale societies could be established in every village union, the cultivator would then obtain a fair price for his jute, and the face of Bengal would then change into a smiling one. The *modus operandi* of a co-operative jute sale society should be as follows. The cultivators of jute of a village or of a union should agree to combine themselves into an association for the sale of jute. The society shall have a godown and office of its own. After the harvest is over, all the jute produced by the members of the society shall be handed over to the society which shall stock the goods in its own godown. The members shall not sell their produce on their own account, but through the society. The society shall issue a receipt for the jute deposited with it. This receipt shall be made negotiable, so that on the strength of this security the cultivator may take

"advance" to meet his current expenses. The existence of a co-operative credit society side by side with the jute sale society facilitates the successful working of the latter, because then it becomes easier for the cultivator to discount his warehouse receipt issued by the jute sale society with the credit society. Meanwhile, when the price of jute rises to a level which is considered fair and reasonable by the society, the society can sell the jute deposited with it. After deducting the expenses of office and providing for reserve, the sale proceeds will be distributed among the members of the society on the basis of the amount of jute deposited by each member. The cultivator will then pay off the amount he borrowed on the strength of the security as furnished by the godown receipt, and retain the surplus to himself. Thus, it is possible for the cultivator to get a price, higher than he possibly could expect to get otherwise.

It will thus appear that the success of the scheme largely depends on the question of finance. In the first place, who is going to provide the money with which the godown for storing jute will be built and the amount that would be necessary to meet initial expenses? Secondly, who will discount the godown receipts? The Co-operative Credit Societies are few and far between and their resources are hopelessly inadequate for the purpose. The money-lender would also be unwilling to discount them, in order to nip in the bud the attempt that aims at undermining his predominant position in the rural economy. Certainly he cannot dig his own grave. The jute sale society also cannot possibly raise the requisite fund by share

capital or loans or deposits from members. Hence there is every likelihood of such a society, like the Co-operative Credit Societies in this country, coming to grief in course of a short period. Now-a-days greater attention is, therefore, paid to devise other schemes for the purpose. The setting up of regulated markets all over the Province, establishment of licensed warehouses whose receipts would be made negotiable to the joint-stock banks, better dissemination of the trend of prices, combined with a judicious regulation of the jute crop according to the probable demand would go a long way in securing a fair and economic price to the growers of jute.

Q. 45. Explain what do you understand by "co-operative credit." Consider the types of primary agricultural societies and describe their economic utility. (B. Com., 1929.)
Examine the scope of co-operation in the field of Indian agriculture. (Cal. B. A. 21,32; Dac. 36; All, 39; Delhi 34; Punj. 42; Mad. 34, 37)

A co-operative society means an association of individuals who by mutual support and moral development secure to themselves the material advantage generally available to the wealthy or powerful persons. It is an association where the resources of all the members are pooled together as it were for mutual help and support. The idea of mutuality is uppermost in all forms of co-operation. When the society based on co-operative principles supplies credit to its members, the credit obtained is called co-operative credit. The credit granted to one member is given out of the

collective credit of other members placed with the society.

In India various types of primary agricultural societies have been established to tackle the many different problems of the Indian agriculturists. Primary agricultural societies may be divided into two classes—credit societies and non-credit societies. (For a description of agricultural credit societies and their utility, see answer to question 41.)

The need for non-credit agricultural societies is equally great, if all the profits of agriculture are to go to the cultivators who are at present heavily mulcted by middlemen. There are various types of these societies. The co-operative sale societies increase the holding power of the cultivators, thereby making it possible for them to withhold the crop till prices rise. The money-lender who also does a lot of trading on his own account and the middlemen are thus dispensed with. The co-operative purchase societies enable the cultivators to buy agricultural implements, manures, seeds etc. at a cheaper price. The co-operative cattle-breeding societies enable the cultivators to get the services of stronger and healthier cattle power. The cattle insurance societies will protect the cultivators from the heavy loss of cattle mortality. The co-operative irrigation societies solve the problem of water supply of the ryots in tracts where canal irrigation is expensive or impossible. Such irrigation societies have made some progress in Bengal. In the Punjab the co-operative consolidation societies started under the influence and guidance of Mr. Calvert have achieved notable success. There have been few

instances of co-operative dairy societies here and there. But it must be said that this type of non-credit societies have progressed little so far, though their necessity is no less imperative than that of agricultural credit societies. Recently the Reserve Bank of India has strongly recommended the establishment of multipurpose co-operative societies for the benefit of Indian agriculturists. These societies will not simply supply credit to the members but will strive to bring about an all round improvement in his position by merging in other activities. *e.g.*, purchase of seeds and implements, storage and sale of products, improvement of sanitation, drainage and irrigation, co-operative education. Single purpose societies have failed. Multi-purpose societies may turn out to be the proper remedy. If there are too many societies in the same village, none of them will be properly managed and there will be co-ordination of their activities. One big multi-purpose society may serve the needs of the village more efficiently.

Q. 46. State the constitution and functions of (1) Co-operative societies with limited liability; (2) Co-operative societies with unlimited liability. How are the Co-operative societies financed? Discuss their economic and educational values. (B. Com., 1930.)

Strictly speaking, co-operation should be based on the principle of unlimited liability of its members, for in a co-operative society each exists for all and all for each. But as an expedient measure and to meet the exigencies, limited liability societies are also formed and allowed to function. Agricultural credit societies are mostly based on unlimited liability, i. e., the liability of the debts

of the societies is unlimited, unless especially exempted by the Government. That is, debts are recoverable by a series of *per capita* levies upon the members up to the full extent of their property. Direct proceedings by a creditor against individual members is, however, prohibited. It is because of this unlimited liability that each member keeps a watch over the affairs of the society and also over the activities of other members. It carries with it a two-fold advantage. "It exercises an educative influence on the members by stimulating mutual control and supervision, and improves the credit of the society by inspiring confidence among its outside creditors".

On the other hand, agricultural non-credit societies generally prefer limited liability, and under the Act of 1912 it is optional for this type of societies to accept limited or unlimited liability.

In all other respects, *viz.*, the constitution, management, capital, etc. limited liability societies are run on almost similar lines followed by unlimited liability societies.

For the second part of the question, see Answer to Question 41.

Q. 47. Enumerate the special functions of Central and Provincial Co-operative Banks. Is it necessary to create an all-India institution to finance the provincial banks? (B. Com., 1931; Mad. 36.)

A central bank is a federation of primary societies in a specified area, generally a district. It has also individuals as its members, and is generally located in the headquarters of a district. Co-operative central banks

belong to a higher stage in the co-operative pyramid that has been devised to organise, supervise and finance the primary societies of all kinds. They have great utility in a country like India where the capital locally raised by the primary societies is extremely inadequate for a successful working of these rural societies. These rural societies have, therefore, to borrow from outside agencies, but the money-lender as well as the modern joint-stock bank functioning in a distant town will not grant loans to them. Hence these central banks have to be developed for federating the primary societies. They are of three types, capitalist, mixed and pure, according as they are formed by capitalist, individual shareholders, or jointly by primary societies and individuals, or singly by the societies only. The prevailing choice is for the mixed type, because it is easier for a mixed society to raise sufficient capital than a pure central bank. Their function is two-fold They act as financing agencies to the primary societies and also serve as balancing centres for adjusting the excesses and deficiencies of the working capital of the primary societies under their jurisdiction. As a rule these central banks do not do any commercial business. But in Bengal they have been permitted to do some commercial business, such as, collecting bills, making remittances and issuing demand drafts etc. Central banks also inspect and supervise the working of primary societies. Their resources consist of share capital and reserve fund, deposits of various kinds, such as current, fixed and savings, the deposits of the surplus funds of primary societies, loans and overdrafts from the Imperial Bank

and a few joint-stock banks, and loans from the Provincial Bank. In some cases they have attained so much stability that they are able to secure deposits at low rates of interest, and surplus funds of public bodies like municipalities, local boards etc. are deposited with them. Twenty-five per cent of their net profits must be carried to the reserve fund. They have also to keep sufficient liquid resources, the percentage of these to deposit liabilities being fixed by the Provincial Registrar of Co-operation.

In all provinces except U. P., central co-operative banks have federated themselves into apex banks called provincial co-operative banks. The same rules that govern the central banks in the matter of their constitution, working capital and cash reserves apply in the case of provincial banks also. Their share capital is provided partly by central banks and partly by individuals. They also accept deposits from outside sources like the central banks. The bills discounted by them can be rediscounted by the Reserve Bank. They also enjoy cash credits and over-draft facilities from the Imperial Bank and a few joint-stock banks. They act as financing agencies to the central banks, and balance the excess and deficiency in the resources of central banks. Some provincial banks also lend their own surplus funds to one another. They lend to the primary societies, not directly, but through the affiliated central banks, except in areas which have no central banks of their own. Funds thus flow from the provincial banks to the central banks, then to the rural societies, and finally to the individual borrowers. In short, the provincial banks form the link between the

co-operative organisation and the general money market.

CHAPTER IX

India's Industries and Their Development

Q. 48 Mention some of the principal cottage industries of Bengal and discuss the possibilities of handloom weaving industry with special reference to the advantages it has over power weaving. (B. Com., 1923)

The principal cottage industries of Bengal are, (1) Handloom cotton weaving, (2) handloom .silk weaving, (3) handloom jute weaving, (4) washing soap making, (5) horn button industry, (6) mother-of-pearl button industry, (7 conchshell industry, (8) cutlery industry, (9) lock and key making, (10) handmade paper industry and (11) pottery.

Possibilities of handloom weaving industry.—Handloom weaving industry is the largest and the most important cottage industry in Bengal. It comprises (*a*) handloom cotton weaving, (*b*) handloom silk weaving, (*c*) handloom jute weaving and (*d*) handloom wool weaving. In order to judge the possibilities of handloom weaving industry as a whole, we shall have to consider each of these sections of the industry.

(*a*) *Handloom cotton weaving.*—Although due to mill competition and certain organizational defects, the handloom cotton weaving has become decadent, its possibilities still remain very promising. In the whole of Bengal

handloom production forms more than 40% of the entire mill production. The production in mills is increasing, but the handloom production has remained more or less steady although it has not shown any definite progress. In Bengal alone more than two lakhs of persons carry on handloom weaving as a profession. So the vitality of the industry is very promising and it is believed that if the organizational defects are removed and the scope for undue mill competition is minimized, the handloom cotton weaving can again revive. The industry has certain advantages which indicate its future possibilities. For instance, (1) handloom industry can be carried on by all the members of the family, each one of them doing a part of the entire process of manufacture ; (2) since it is carried on in homes, the peace and quiet of home life can be fully enjoyed ; and (3) the evils of industrial cities can be avoided in a system of cottage industries These advantages certainly go in favour of handloom cotton weaving industry. At the same time, the organization of the industry is defective in many respects, for the weavers, being poor, are entirely dependent on the *mahajans* for finance, for raw materials and for marketing their finished products. Necessarily the weavers, more than 80% of whom all over Bengal are dependent on *mahajans*, do not possess any initiative. Under the circumstances the following remedies may be suggested to improve the prospects of the industry :—

(i) Suitable arrangements should be made for providing the weavers with adequate finance and marketing facilities. They should be, first of all, rescued from the clutches of the *mahajans*.

(*ii*) Co-operative Societies among the weavers should be encouraged so that through them the poor weavers may have supplies of raw materials and have their finished products disposed off.

(*iii*) Arrangements ought to be made for providing the weavers with new designs of cloth in keeping with the changing requirements of the people.

(*iv*) Arrangements should also be made for introducing better devices and labour saving machineries, so that the handlooms may compete with mills to some extent.

(*b*) *Handloom silk weavin*.—It was a flourishing industry even some 20 years back, but owing to the competition of China, Japan and Italy, the industry has fallen on evil days The present war, however, stimulated a demand for India's raw silk ; but on the weaving side much technical improvement is called for in order to turn out standardised products on a mass scale. The Department of Industries, Bengal, has a special Section, namely, the Sericultural Section, which is looking after the industry. Already many improvements have been initiated, and having regard to the progressive character of the industry and the protection it is enjoying from the State, its future progress seems to be assured.

(*c*) *Handloom jute weaving.*—This is a growing industry and considering the fact that jute is Bengal's monopoly and there is a growing demand for such goods as carpets, *sataranchies*, *ashans*, bags etc., the jute weaving industry of Bengal has a future, if, of course, technical improvements are pushed on.

(*d*) *Wool weaving.*—This is also a growing industry carried on by a few hundred persons in Bengal. Their

methods of operations are crude. The war has given a stimulus to the industry. If modernised methods are employed, the industry may expand progressively.

Advantages of handloom weaving industry.—The chief advantage of handloom industry over power weaving is that handloom products can be more artistic than machine made goods. In mills standardised fabrics are turned out, but in handlooms there is a large scope for individual artistic designs.

Q. 49. Discuss the pros and cons of the employment of foreign capital in India for the development of her industries, her railways and her irrigation works. (B. Com., 1923).

The question of employing foreign capital to exploit India's economic resources usually gives rise to divergent views. There is a view that since India has no capital and is under-developed, foreign capital should be invited, while the opposite view point is that since the influx of foreign capital means the influx of foreign influence, it should be prevented. We may summarise here the advantages and disadvantages of external capital.

Arguments against foreign capital :—*(a)* The profits earned by foreign capital go out of the country and to that extent the country suffers a loss.

(b) Since foreign capitalists import their own directors and own men to manage things here, the advantages of service are thus largely denied to the nationals.

(c) The most serious objection is, however, political, for the importation of external capital invariably means the control of foreign people over the economic and political affairs of India. The special protection which had to

be extended to the British commercial interests under the name of commercial safeguards (under the Government of India Act, 1935) points to this conclusion.

Arguments for foreign capital :—(*a*) One of the important advantages of foreign capital is that in an under-developed country possessing none too large capital, foreign capital may serve the purpose of accelerating the process of industrialization.

(*b*) Another advantage is that the employment of external capital may prepare the ground for indigenous initiative and enterprise to grow up. Thus foreign capitalists may be said to be performing the role of pioneers in undeveloped countries.

The arguments for and against are no doubt cogent to some extent, but it must be admitted that unless the nationals are permitted to take over the task of industrial development at some stage or other, industrialization by foreign capital cannot but involve continuous economic loss to the country. If the initial development is carried out by external capital and the entire initiative passes into the hands of the nationals thereafter, then alone can external capital be beneficial to the country. In India already much foreign capital has been imported for exploiting minerals, building railways etc., but unless at an early date all undertakings are taken over by the State or pass into the hands of Indians, the earnings of all such investments will continue to go out of the country. India has now arrived at a stage of industrial development where no more external capital is called for. Any more capital will mean the retardation of India's enterprise and eventual economic loss.

Q. 51. Are there any special difficulties in setting up and working large manufacturing industries in India? Explain the circumstances which have led to the grant of protection to the biggest iron and steel manufacturing concern in India. (*B. Com*, *1925.*)

The principal difficulties which have hitherto been encountered in establishing large industries in India are :—

(*a*) *Lack of adequate capital* Indian capital is proverbially shy because of the conservative habits of the people and the general preference of wealthy people for landed properties. Hitherto, therefore, not much capital has come forth for investment in industries. Necessarily the lack of capital has been a *stumbling block. But* with the growth of banking and the decline in the remunerativeness of landed properties, people are coming more and more into the industrial field.

(*b*) *Lack of technicians.* It has also been a great handicap to our pioneer industrial ventures. Although some technical institutions have come into existence, we cannot say as yet that India possesses a self-sufficient system of technical and industrial education. So the dearth of technicians still persists. The urgent requirements of the present war also have emphasised this drawback of India.

(*c*) *Absence of helpful co-operation from foreign industrial firms.* The antagonistic attitude of foreign large scale firms in India has often killed many ventures.

(*d*) *Unhelpful policy of Government.* The *laissez faire* policy, *viz.*, a policy of non-interference, which the Government have all along pursued in the matter of in-

dustrial development in the country, has no doubt proved very unhelpful to the growth of large industries.

The extent and intensity of many of these factors have no doubt decreased, but we cannot say that their influence does not exist. In fact, it is well-known that these factors are still working against India's interests.

Protection to Iron and Steel Industry—The circumstances which led to the grant of protection to the iron and steel industry were something like this: The Tata Company was created by the late J. N. Tata in 1907 at Sakchi in Singhbhum district. It was in 1911 that for the first time the firm produced pig iron and it was in 1913 that it produced steel. Immediately after this the Great War broke out and stimulated the demand for iron and steel products on a surprising scale. The whole industry was placed on a war basis and did much valuable service in supplying huge quantities of rails, sleepers etc., for being utilized in military railways. Thereafter the industry went through schemes of extension and renovation till in 1923 when they put forward a claim for protection against foreign competition. The Tariff Board appointed for holding the enquiry recommended after a careful and prolonged investigation that the case for protection was warranted by the circumstances In June, 1924, the Steel Protection Bill was passed in the Assembly and the industry received protection which gradually ensured its progress and further expansion.

Q. 52. What precisely do you understand by "discriminating protection"? Illustrate your answer from Indian conditions.

(*B. Com., 1926.*)

A policy of discriminating protection was adopted by

the Government of India on the recommendations of the Fiscal Commission. The word "discriminating" means that protection is to be granted not to all industries, but only to certain suitable industries which satisfy certain defined conditions. The guiding principles which were laid down by the Fiscal Commission and have so far been followed by the Government of India in granting protection to industries are :—

(*i*) The industry must be one possessing natural advantages, such as an abundant supply of raw materials, cheap power, a sufficient supply of labour and a large home market.

(*ii*) The industry must be one which, without the help of protection, is either not likely to develop at all or is not likely to develop so rapidly as is desirable in the interest of the country.

(*iii*) The industry must be one which will eventually be able to face world competition without protection.

These conditions evidently indicate that unless the industry which seeks protection has good potentialities of surviving foreign competition in the long run and has at the present moment the advantages of a large home market, availability of large labour force and raw materials, it does not deserve protection. The objective behind the imposition of such terms is indeed to prevent the growth of undesirable and weak industries. The actual operation of this policy of discriminating protection has revealed that because of the stringent conditions enforced, only a limited number of industries have so far been able to receive protection. The Iron and Steel Industry, the Cotton Textile Industry, and the

Sugar Industry, for instance, have received the benefit of protection, for they have satisfied in each case all the conditions more or less. India has enough iron ore deposits which are now being utilized by the Tata Company. She has enough cotton resources and also abundant lands for growing sugarcane. So the cotton textile industry and the sugar industry have developed. In the case of glass industry, however, protection has been denied on the ground that one of its essential raw materials, *viz* soda ash, is not produced in India in large quantities. This decision has been the cause of resentment among the mercantile community of India, for except in case of soda ash, the glass industry very *well* satisfies all other conditions for protection.

There is a growing feeling in the country that the policy of discriminating protection has not been a success, for its rigid conditions have limited its application and its good effects. That the policy should be liberalized is practically the unanimous demand of the Indian public. Besides, having regard to the need for rapid industrial progress in the country and the protectionist policy pursued almost in all countries, a more liberal policy of protection is urgently called for.

Q. 53. Discuss how far the Indian industrial system is already developed and in what lines it is capable of developing in future.

(*B. Com., 1927*)

Considering the vast size and growing requirements of India, her industrial development has been inadequate enough. Still it should be admitted that her progress in certain direction has been quite impressive. The follow-

ing are the pricipal lines in which India's industrial development has been in a large scale :—

(a) Iron and steel industy ;
(b) Cotton textile industry ;
(c) Jute industry ;
(d) Tea industry ;
(e) Paper industry ;
(f) Glass industry ;
(g) Soap industry ;
(h) Cement industry ;
(i) Coal industry ;
(j) Sugar industry ;
(k) Match industry ;
(l) Soap industry ;
(m) Tanning and leather industries ;
(n) Petroleum industry ;

Of these industries jute, tea, sugar, cement and coal industries may be considered as having reached the saturation point. Jute is India's monopoly and tea is now regulated by an International restriction scheme. The cement industry is said to be more or less self-sufficient so far as India's requirements are concerned, while the coal industry is limited by the deposits within the womb of the earth. As regards the cotton textile industry, it now provides the major portion of India's requirements, but since India's requirements are steadily expanding and imports of foreign goods can be replaced, there is a scope for further expansion of the industry. With regard to paper industry the possibilities of its further expansion for India's requirements are growing and besides, there are also new lines (such as newsprint)

in which the industry may expand. Although the iron and steel industry of India is quite large, the fact is that it will have to expand in many directions in order to meet the requirements of the growing shipping and engineering industries in the country.

In the line of heavy chemical industries India has not made much headway. The war situation has clearly revealed that India is badly in need of building her heavy chemical industries for producing soda ash, caustic soda, bleaching powder, etc. India has not also any large metallurgical industries. Ship building, aeroplane-making, automobile industry and other large-scale engineering industries are directions in which India's capital and enterprise will have a large scope for operation. In machinery and machine tool making industries also India is deficient. All such deficiency is to be removed by planned efforts. In certain directions beginnings have, of course, been made with good promise but they at best are beginnings only.

Q. 54. What principal nations have invested their capital in India and in what industries and in what fields of trade and commerce?

(*B. Com., 1927.*)

The External Capital Committee which was appointed in 1924 considered the question of foreign capital in all details. It is not possible to find an accurate estimate of the amount of external capital invested in India. But from the returns of joint-stock companies working in British India but incorporated elsewhere and of joint-stock companies registered in India but controlled by foreign capital, an idea of the dimensions of foreign capital in India may be had. It appears from the relevant

statistics that the volume of indigenous capital is much less than foreign capital. But the tendency seems to be for Indian capital to increase at a faster rate than foreign capital.

The predominance of foreign capital is discernible in (1) jute mill industry, (2) cotton mills like the Buckingham and Carnatic Mills, (3) Cawnpore Wollen Mills, (4) tea gardens in Assam, (5) petroleum industry, (6) large railways and (7) coffee and rubber plantations. In many other industries also European capital is considerable. In exchange trade foreign capital is very strong, for most of the large scale business concerns such as banks, insurance companies, shipping companies, and mining concerns are under the influence of foreign capital. Such large scale companies as the Imperial Chemical Industries Ltd. which is concerned with heavy chemicals, Lever Brothers engaged in soap industry and Bata Shoe Co. are managed entirely by foreign capital.

The redeeming feature of the situation is that the growth of India's capital resources in different spheres of trade and industry in recent years has been steady and progressive.

Q. 55. Discuss to what extent the industrial development of India is hindered or faciliated by its social and physical conditions.

(B. Com., 1928)

(1) Influence of social conditions.

Caste system, joint family and existing laws of inheritance are the three important social factors which exercise an effective influence on the industrial development of the country. Their demerits may be explained as follows :—

(a) Caste system does not permit people to pass easily from one profession to another. This immobility of labour leads to the stagnation of industries in many cases.

(b) Persons belonging to a particular caste must stick to a particular occupation. This prevents the free play of special merits or special aptitudes. In recent times, however, owing to economic pressure and the influence of Western ideas and habits, caste system has lost much of its rigidity

(c) Caste system prevents large-scale enterprise, for under this system large capital cannot be accumulated.

(d) The joint family system does not encourage individual initiative and enterprise.

(e) The laws of inheritance tend to the sub-division of holdings with the result that it reduces the economic resources of individuals or individual families. Thus large-scale enterprise cannot be possible.

The only merit of caste system or joint family system is that specialization in certain lines of industries is often achieved.

The influence of physical conditions on industrial development may be thus explained.

India is generally a country of hot climate. Naturally sustained labour such as is possible in temperate climates or in cold countries is not possible in India. As such the efficiency of an average Indian labourer has been declared to be inferior to that of an average European labourer. Although there may be a difference of opinion on the question, it is a fact that the Indian climate is not very suitable for sustained and hard industrial work.

The natural fertility of the soil and a productive agriculture that can be carried on without much hard labour seem to have made the agriculturists averse to leave their quiet rural surroundings and accept jobs in factories. The shifting character of Indian labour is also due to their attachment to agriculture. These factors have no doubt retarded India's industrial development to some extent.

Q. 56. To what extent Government should or can give subsidies to industries?

(B. Com., 1928, 1940.)

Between a protective duty and subsidy in order to protect an industry against foreign competition the difference is this : (*a*) In the case of a protective tariff, the burden of the tax will be reflected in increased price which will be paid by the consuming public. Thus the tax burden will tend to be distributed among the consumers.

(*b*) But in the case of subsidy there will be no direct burden on the consumers, for the subsidy to be paid to the industry will be provided by the public exchequer. But since the money will come from the Government, it will ultimately mean a burden on the people from whom Government revenues are realised in some form or other.

There is evidently an important difference in effect betweeen the two. For a protective tariff will benefit the industry at the cost of the consumers ; but the subsidy will benefit the industry without imposing any direct burden on the consumers. What will be the long run consequence does not matter much from a short period point of view.

But there are various limitations to the operation of a scheme of subsidy. In the first place subsidy can be given only for a limited period. In the second place if a scheme of subsidy involves large sums, it may not be possible for the Government to expend huge sums for a single industry. A protective policy brings some revenue to the Government, but a subsidy does not. Besides unless the Government is fully convinced that the emergency period will be short-lived and that the industry in question has assured possibilities of standing on its own legs in normal times, a policy of subsidy can hardly be pursued. In view of these considerations, subsidy is rarely afforded to industries under normal circumstances.

Q. 57. Discuss the principle of state interference in industry. What is the policy of the India Government towards the development of industries in this country ? (*B. Com., 1930*)

The principle of State interference in industries may be put forward from two standpoints, *viz.* (1) if an industry, which is of great consequence to the economic life of the nation cannot grow or survive without some form of State assistance, such assistance may be necessary ; and (2) in case of an industry, which is of great utility to the public but may be exploited by private concerns to the great inconvenience of the public, the State may control it or exercise a requisite measure of influence over its working. As an instance of the former, the iron and steel industry and as an instance of the latter, electricity or waterworks may be mentioned. These principles may not be always enforced but generally they are followed in modern times.

Industrial policy of Government.—For a long time the Government of India have followed an absolute policy of non-interference in the matter of promoting industrial development. It was the Madras Government which for the first time actively associated themselves with the encouragement of such industries as alluminium, handloom weaving industry, etc. But this policy was not favoured by the Government of India. About the character of the policy of Government as propounded by Lord Morely, Secretary of State for India in 1910, the Industrial Commission observed as follows :—

"The policy which he was prepared to sanction was that State funds might be expended upon familiarizing the people with such improvements in the methods of production as modern science and the practice of European countries could suggest. Further than this the state should not go and it must be left to private enterprise to demonstrate that these improvements could be adopted with commercial advantage."

The policy, however, underwent modifications on account of the developments during the war of 1914-18. The curtailment of many imports of industrial importance emphasised the need for building up many vital industries in India. Military necessity also prompted a policy to this end. The creation of the Indian Munitions Board in 1917 with a view "to control and develop Indian resources, with special reference to the needs created by the war" marked the beginning of a new policy which took a definite shape with the adoption of the policy of discriminating protection on the recommendations of the Fiscal Commission.

Q. 58. On what general principles should the State assist or encourage industries? How far can these principles be applied in encouraging the handloom industry? Briefly indicate the scope for the expansion of small scale industries. (*B. Com., 1931.*)

The general principles on which the State should assist or encourage industries may be stated as follows :—

(1) Those industries, which are essential for the all-round economic development of the country, such as heavy chemicals, iron and steel industry, machinery industry, etc., should be assisted and encouraged by the State.

(2) Those industries which are of great importance to the economic life of the nation but cannot develop owing to foreign competition, such as cotton textile industry, glass industry, etc., deserve State assistance.

(3) Those industries which maintain a large section of the masses and cannot be allowed to die without throwing thousands of cottage workers out of employment, should be encouraged.

In the last category falls the handloom weaving industry. The principle enunciated in category (2) applies to handloom weaving also to some extent. The whole case of handloom weaving industry deserving State assistance is this :—

(*a*) Thousands of people in rural areas are dependent on this industry and no better and more remunerative occupation can be suggested to them.

(*b*) Since handloom weaving industry can be carried on in rural areas and in the peaceful atmosphere

of the home, it has many advantages over the factory industry.

(c) But handloon industry being under the grip of unscrupulous middlemen is not thriving well and does not provide the workers with profits adequate for their labours or bare existence. The industry is unorganized, marketing arrangements are scanty and defective and financial facility non-existent. All these organizational defects must be removed before the industry may be able to stand on its own legs.

(d) Since handloom weaving is unorganized and the weavers are poor and ignorant, mill competition is causing harm to the prospects of the industry. So there is a need for safeguarding the handloom industry against unfair mill competition.

In order to investigate into the whole case of the handloom weaving industry as affected by mill competition, the Government of India has recently appointed the Fact-Finding Committee (Handlooms and Mills) whose findings are being awaited.

Prospects of small-scale industries :

In the category of small-scale industries we may include all cottage industries and such other industries as hosiery, glass, soap, etc. In every industrialized country, small-scale industries have an important role to play side by side with large-scale industries. In such countries as Japan, Germany, Italy, etc., small-scale industrial units are many and various. They often function as contributory or subsidiary to large-scale industrial units. As such the prospects of these industries in this country may be much improved if only proper organizations are set up

and all difficulties and drawbacks in the way of small industries with regard to finance, marketing, etc., are removed. If the necessary improvements are effected in protective technique and in respect of the above-mentioned drawbacks, there is no reason why the small-scale industries will not perform a much more valuable role in the economic structure of the country.

Q. 59. Carefully explain the conditions which you will require for an industry to satisfy before it should be granted protection by a tariff. Illustrate your answer with an important industry which satisfies your conditions.
(*B. Com., 1935, 1936.*)

The Indian Fiscal Commission of 1922 laid down the following principles for granting protection to deserving industries :—

(1) The industry must be one possessing natural advantages such as an abundant supply of labour or a large home market ;

(2) The industry must be one which without the help of protection either is not likely to develop at all or is not likely to develop so rapidly as is desirable in the interests of the country.

(3) The industry must be one which will eventually be able to face world competition without protection.

The Government of India approved of these conditions suggested by the Fiscal Commission and adopted a policy of what is called "discriminating protection." This means that protection cannot be grated to all and sundry industries but only those industries are to be favoured with protective tariff which have protentialities. The first

condition is necessary in view of the fact that if raw materials and labour are not available in sufficint quantities in the country and there is no adequate market to consume the industrial goods no industry can possibly grow up and cansolidate its position. These cansiderations are essential for no industry should be a permanent burden on the public. The significance of the second condition is that at initial stages infant industries may not be able to withstand foreign competition, although possessing great potentialities of eventual strength and development. In such cases state assistance is called for on the analogy of infant being carefully nursed and nurtured by the parents in early years. The third condition follows from the first two, for if an industry does not promise to withstand foreign competition in the long run, it would not generally deserve any protection on the ground that by propping up such an industry, the State will impose a permanent burden on the society. The burden of protection, in the shape of increased prices of industrial goods, is after all borne by the consuming public.

All these conditions were satisfied by the sugar industry and, therefore, it was granted the benefit of a protective tariff. As regards the availability of raw materials and labour force, the industry presents ideal conditions, for India has fertile lands for growing sugarcane and also abundant cheap labour. Besides, India with her teeming millions offers a large and widening consuming market. Before the grant of protection in in 1932, India imported more than 5.11,400 (1931-32) tons of sugar annually, but during 1936-37 the imports dwindled to 23,000 tons only. The operation of the

protective tariff has successfully usted foreign imports of sugar. The chief competition is with Java. It is yet to be seen whether ultimately the sugar industry can withstand competition with Java sugar without the help of the protective tariff. So the efficacy of the sugar industry to satisfy the third condition, *viz.*, it should ultimately be able to stand world competition, will have to be judged a few years after. It may, however, be admitted that without the help of the protective tariff the sugar industry would not be able to develop so rapidly and in such a scale within such a short period of 8 or 9 years.

Q. 60. "In the matter of Indian industries, we are bound to consider Indian interests firstly, secondly and thirdly." (Sir Frederick Nicholson) Discuss. (B. Com., 1932.)

The industrial policy, which was followed by the Government of India till the last Great War of 1914-18, was one of *laissez faire*. The State did not actively assist and encourage industrial development. But after the war the policy of the Government was more active and when the principle of discriminating protection was accepted, as a part of their policy, the principle of active Govermment help to deserving industries was recognized. This policy still prevails. But from the working of the policy it cannot be said that it is in the interests of India "firstly, secondly and thirdly." The quotation does indeed represent the type of policy which the nationalist India has all along demanded and tried to evolve. Circumstances and the actual operation of Government's economic policy warrant the belief that Govern-

ment policy has not been shaped in accordance with the principle enunciated in the above quotation. For instance, foreign capital has been allowed to be imported into the country and the tariff policy has been so adjusted as to safeguard the commercial interests of Britishers in every way. In the matter of cotton textile industry, for instance, the British industries enjoy a preference in the Indian market as against other countries. The scheme of Imperial preference which was embodied in the Ottawa Trade Agreement of 1932 secured full advantages for British industries and also the interests of dominions and colonies.

The Constitution Act of 1935 contains definite provision to the effect that Indian legislatures will not be permitted to carry out any measures calculated to discriminate against British commercial interests. Besides the Viceroy has certain discriminatory powers for safeguarding British commercial interests. What is of much more consequence, British enterprise in India will be entitled to all constitutional privileges as Indian capital and enterprise. In view of these provisions, India does not possess full fiscal autonomy and has no free choice in regulating her tariff policy. It would thus appear that the British policy in India in the matter of industrial development is not in the exclusive interest of India. Indian's tariff policy or internal industrial programmes can be helpful to her progress only in those cases where these are not harmful to British interests in any way.

The quotation, therefore, may be good only in so far as intentions of the speaker are concerned but it is not followed in practice.

Q. 61. Describe the extent to which a policy of protection has recently been adopted in India. Explain the effects of this policy on the industry and trade of the country. (B. Com., 1941.)

On the recommendation of the Fiscal Commission of 1921-22, the Government of India have adopted a policy of "discriminating protection". The terms of protection as accepted in this policy are so rigid that only a limited number of industries have received the benefit of a protective tariff (For a fuller explanation of the policy of discriminating protection, see answer to Q. 67.)

As regards the effects of this policy, it may be stated that the advantage of protection has been extended to a few industries only. The following is a brief account of the industries which have been afforded protection in some form or other.

The industries which have received protection in some form or other are as follows :—

(1) Sugar Industry.

(For details refer to answers to Q. 67 and Q. 72.)

(2) Iron and Steel Industry—The Iron and steel industry received protection for the first time in 1924. In 1934 the protection was renewed. The effects of the protection on the industry have been tremendous, for the Tata Iron and Steel Co. is today the largest single manufacturing unit in the line within the British Empire. The establishment of a few other industrial concerns in India has also resulted from the protective duty. India is on the fair way to become self-sufficient with regard to steel by reason of protection.

(3) Cotton textile industry.—The large expansion

of cotton mill industry in India and the phenomenal decrease in the imports of textile goods are direct effects of the policy of protection. The rate of progress of the industry may be judged by the facts while the production of piecegoods increased from 2258·7 million yds. in 1926-27 to 4,084·2 million yds. in 1937-38, the imports of cotton piecegoods declined during the same period from 1193 million yds. to 590 million yds.

(4) Paper industry.—The first Tariff Board for paper sat in 1925. The Board did not favour protection for the manufacture of paper from sabai grass but recommended it for producing paper with bamboo pulp. The second enquiry took place in 1931. The progress of the industry is indicated by the following statistics :—

Production of Paper.

	No. of Mills	Quantity Tons	Value Rs. (lakhs)
1926	8	31,781	1,57
1930	10	39,706	1,74
1934	9	44,179	1,71
1939	10	47,305	1,89

(5) Match industry.—In 1928 the industry received protection on account of which India is almost self-sufficient with regard to matches. The imports of matches have declined from the pre-war average of 145,60,000 grosses to 11,00,000 grosses only in 1937-38. This will indicate the rate of progress.

Q. 62. Examine the following arguments in favour of protection :—
(a) Diversification of industries ;
(b) National self-sufficiency
How far are these arguments applicable under Indian conditions ? (B Com.. 1938)

(a) The essential objective of a protective policy is to secure a balanced industrial development of the country. But a balanced economic development is not possible unless different categories of industries are developed. So the diversified development of industries should be the object of any well-planned industrial policy. Private enterprise may not often lead to the development of different types of industries necessary for the all-round economic well-being of the nation, for very often it is found that individual enterprise and capital flow into those lines only in which success or possibility of large commercial returns have been demonstrated. Besides, foreign competition may not also allow different types of industries to grow rapidly or in a right scale So a state policy for securing diversified industrial development is often called for. From this stand-point the argument is sound. But if the conditions of the protectionist policy are made unduly stringent, the object of diversifying industrial progress may not materialize. In fact, in India the advantages of the prevailing policy of discriminating protection have not been so wide and comprehensive as to enable divergent industries to grow up. Only a few industries have been granted the benefit of protection and necessarily industrial progress has been limited.

Argument of national self-sufficiency—It is no doubt the basic principle of a protectionist policy Dr. Canan remarked : "The superlative protectionist is the hermit who declines to buy anything from his neighbours" This is not, however, what is actually feasible. A nation cannot be absolutely self-sufficient, for that

is impossible. In the modern world of easy communications and with diversified needs, no nation can be a hermit nation. For India such an achievement is impossible and is not even worthwhile. India is predominantly an agricultural country and must export huge quantities of raw materials like jute, oilseeds, tea etc. In return she must receive some commodities from other countries such as certain types of textile goods, machineries, etc. So some exchange of goods must take place between India and other countries. Only in process of time the character of such exchange may change. India has economic aspirations for a well-balanced industrial development. So she needed a protectionist policy to develop these industries in which she is deficient and which she needs to develop for the economic welfare of the people. So on the last analysis, it should be evident that the principle of self-sufficiency need not be pushed to the extreme limits

From the standpoint of national defence, the argument of self-sufficiency should be very strong in the matter of developing such industries as armament industry, shipping industry, aeroplane making, heavy chemicals, large metallurgical industries, etc. The present war has clearly revealed the many gaps in India's industrial equipment. As such the argument of national self-sufficiency is to be considered strong and valid indeed.

As regards food industries India need not feel alarmed, for she possesses adequate sources of supply, but in the case of many other articles, such as machineries, machine tools, alluminium sheets, celluloid sheets, etc.,

India's deficiency is disquieting. In respect of these lines of industries and many others, India stands in need of pursuing a policy of protection.

Q. 63. Examine the effect of the policy of protection on the sugar industry in India. To what extent has the excise duty effected this policy of protection ? (B. Com. 1939).

The sugar industry was investigated by a Tariff Board in 1931 and the benefit of the protective tariff came into effect in 1932-33. The Tariff Board recommended protection for 15 years though at the end of 7 years the renewal of protection was to be determined by a tariff enquiry. The scheme of duties was based on a calculation of fair selling prices and the Board considered that Rs. 8-13-1 per maund could be taken as a fair selling price of sugar. The Government of India accepted the findings of the Board and from January 30, 1932, levied a duty of Rs. 7-4-0 per cent on imported sugar.

On account of this import duty, the import of foreign sugar have been reduced to a negligible quantity, for they declined from 4,38,300 tons in 1931-32 to 10,000 tons in 1937-38, while production of sugar in India has increased considerably. The following figures will indicate the steady progress of the industry.

Production of sugar in India.

			Total from all sources
			Tons
1931-32	...	...	4,78,000
1933-34	...	...	7,15,100
1934-35	...	...	7,67,290
1935-36	...	...	11,07,100
1936-37	...	...	12,80,900

1937-38	...	...	10,81,882
1938-39	...	...	7,79,840

The increase in the acreage under sugar is also significant.

		(1000 acres)
1930-31	...	2905
1933-35	...	3422
1935-36	...	4154
1937-38	...	3869
1939-40	...	3737

The number of sugar factories increased from 32 in 1931-32 to 136 in 1937-38 and 143 in 1938-39. Such rapid progress had not been without some reverses due to the depression in sugar industry all over the world. *Prices of sugar declined very speedily and the* Indian factories were glutted with surplus stocks In order to do away with the extent of over-production the Government of Bihar and U. P. had to initiate a policy of restriction of cane growing and fixing the minimum price of cane in the interest of the cane-growers. At the present moment this phase of the industry still prevails.

On account of the unsatisfactory position of the industry, Government control over its various stages has increased. A recently appointed Sugar Commission will be the final authority on the subject of Government control on all matters connected with the production and sale of sugar as well as other matters regarding cane prices, basic prices and quotas. This new arrangement marks a new policy on the part of India Government with regard to sugar industry, for formerly the

India Sugar Syndicate enjoying recognition by the Governments of Bihar and U. P. looked after the production side and marketing side, while the two Governments jointly fixed the minimum price of sugar. Relations between the Syndicate and the two Provincial Governments were strained due to differences over the fixation of cane prices and the problem of over-production. All this led to the adoption of the new policy.

On the whole the protective tariff has been responsible for the rapid development of the industry. But this development has brought in its train certain problems which are now awaiting solution.

Excise Duty.—The imposition of an excise duty of Rs. 3 per cwt has not been quite beneficial to the industry, for it has added to the production costs and to that extent the effect of protection has been neutralized. But it cannot be said that because of the excise the sugar industry is not being able to compete with foreign sugar with the help of the existing protective tariff.

Q. 64. Describe the present position and future prospects of the following trades and industries: (a) tea, (b) cotton manufactures, (c) rice, and (d) jute. (B. Com., 1940).

(a) *Tea*—Before the outbreak of the present war in September 1939, there was considerable nervousness that if there were an outbreak of war, Indian tea would find no markets abroad. But later it was found that the increased demand from the U. K necessitated an increase of export quota from 90% to 95% during 1940. The production and export of tea are governed by International Tea Control Scheme. So there are definite

limits to the expansion of its production and export. But considering the steady increase in the level of internal consumption, the expansion of the industry seems likely. As regards foreign exports, the prospects will largely depend on the after-war developments It is possible that on the return of peace times, the demand for India's tea may expand. In 1938-39 India exported about 350 million lbs. of tea During 1939-40, the level has been fairly maintained, for during this year the total exports amounted to 356 million lbs. During 1940-41, tea exports registered an increase.

(b) *Cotton manufactures* :—The export trade of India in cotton manufactures received a great stimulus as a result of the war. From 177 million yards in 1938-39 they increased to more than 500 million yards in 1943-44. Internal production too reached the level of 6,000 million yards. The defeat of Japan has dealt a crippling blow to her industries. Thus the future of Indian cotton Textile Industry is bright both in home and in foreign works.

Indian exports are distributed among the countries bordering on the Indian Occen and the Colonies of British Empire. Burma, Ceylon, Straits Settlements, Arabia, Nigera etc. are the principal markets for India's cotton manufactures During the present war, supplies from Europe and Japan have bean curtailed So India has got an opportunity of obtaining an enlarged footing in many other markets. It is believed that in snch countries as Iran, Afghanistan and other neighbouring States, India may secure wider markets, if only proper organizations are set up for pushing India's goods

(c) *Rice* :—India with Burma used to be a surplus rice-producing country, but at present since Burma has been separated, India's position as an exporter of rice has been changed considerably. Although India still exports some quantities of rice, she is on balance an importer of rice. The following statistics would indicate the position.

	Exports		Imports	
	(in thousands of tons)			
	Rice	Paddy	Rice	Paddy
1935-36	189	4	1,391	252
1936-37	235	1	1,419	121
1937-38	227	1	1,198	36
1938-39	282	3	1,282	84
1939-40	262	4	1,887	339

India imports rice chiefly from Burma and exports mainly to Ceylon, Union of South Africa and East Africa. In her position as it is, India has hardly any possibilities for expanding her rice exports in future. It will not be desirable either.

(d) *Jute industry and trade* :—The chief characteristic of the jute industry is the rapid alternation between prosperity and depression. Prosperous years brought new mills into existence and saw large additions to the number of looms and spindles. During depression the industry tried to maintain profits by restrictive policies, e.g. restriction of working hours, sealing of looms according to an agreed plan. This has been the uniform history of the jute industry. There is a large surplus capacity in the jute industry which is perhaps its major problem. It is the most highly centralised and orga-

nised industry in India, its capital being owned and managed mostly by Scotsmen. After the last Great Depression, the Government of Bengal adopted measures for maintaining fair prices for raw jute and enforcing agreements regarding working hours. The war brought huge orders for sand bags to the jute mills. Prices rose sharply and the hours of work were increased to 50. The fall of France and the U-Boat warfare cut off the continental and American markets and brought about depressed conditions to the jute industry. The mill owners decided to reduce the working hours to 45 and subsequently to close down for one week every month. The Japanese conquest of Burma brought about another wave of depression. At the present moment the industry is expriencing boom conditions. On the whole the jute mills prospered during the war and during the post-war period, the prospertiy is likely to continue for some time.

Q. 65. What do you understand by "Economic Planning"? *Discuss the possibilities and methods of economic planning in India.* (B. Com., 1940).

"Planned economy" is a new concept which has grown into great popularity due to the post-war economic developments. A planned economy has been defined by an economist as "a system of economic organization in which all individual and separate plans, enterprises and industries are treated as co-ordinated units of a single whole for the purpose of utilizing all available resources to achieve the maximum satisfaction of the needs of a people within a given interval of time." Evidently the essential features of a scheme of economic planning would involve :—

(1) A co-ordination of the units of economic production, such as industry, agriculture, trade and commerce

(2) The existence of a guiding principle for the attainment of the maximum social satisfaction and the formulation of certain ends to be attained ; and

(3) A time limit for the attainment of the ends in view.

First of all, a comprehensive programme of work based on a detailed study of the actual position is to be formulated in terms of our national objectives Then the different parts of the programme are to be carried out in a co-ordinated manner. The Soviet Government of Russia is reported to have achieved far-reaching economic and social progress by pursuing well-thought-out programmes of work. This inspiration has permeated throughout the world. Since, however, Government control over all factors of economic production is necessary, economic plans have had necessarily to be adjusted according to the constitutional position of different countries. The new Deal of President Roosevelt, although an economic plan, differs in many essentials from that of the Soviet Government.

Need for a plan in India.—The necessity for an economic plan in India is obvious and urgent. Her economic development has so far been planless. Certain industries have been developed to saturation point while certain other essential industries have remained neglected. Agriculture needs the benefit of new farming methods and besides, there is no close relationship between agriculture and industry. The trade of the

country is not well-organized either internally or externally. The transport system, waterpower, mineral resources, public health, education and, in fact, all important aspects of national life have been inadequately developed and have no plan of progress in their working. In order to achieve harmonious and co-ordinated economic progress of the country, a comprehensive and well-thought-out programme of work is needed. It may be questioned whether within the constitutional framework of India, it will be possible to carry out any far-reaching programme of economic amelioration. To this it must be pointed out that although it may not be possible to introduce in India a system analogous to the Soviet plan, yet there is undoubtedly a large scope for pursuing an economic programme which would secure to India the maximum result within a minimum period. Since the present policy of the Goverment is on the whole planless, one may not expect a good plan or a good working of a plan in India. But with the improvement of responsible government in this country the people may come to possess more powers for regulating the economic policy of the country and at that stage India may have a full-fledged economic plan.

National Planning Committee.—The Indian National Congress set up a National Committee with a view to evolve a comprehensive economic plan for India The Committee did not finish the labours. The most discussed economic plan for India is the Bombay plan submitted by eight leading Indian industrialists The Post-War Reconstruction Committee of the Government of India have also issued long term plans for industrial

and agricultural development. (For Bombay plan, see answer to Q 67.)

Q 66. Discuss the merits and defects of the Managing Agency System in India. (B. Com., 1940, 43, 45, Dac. 41.)

The managing agency is a partnership or a private limited company of the three or four members, usually related to each other for running a business or a number of business concerns. The managing agency usually display great business enterprise and has large financial resources. The principal criticisms that have been levelled against the system are as follows :—

(a) Since the managing agency is in most cases inherited through generations, it often happens that the management passes into incapable and unscrupulous hands. The principle of hereditary succession to management is not beneficial to the progress of the industry.

(b) The managing agents often pack the Board of Directors with their own nominees. They often manage competing firms and may thus raise a prosperous firm. They often indulge in speculative activities on the stock exchanges to the detriment of the companies they manage.

(c) The managing agents are also often held guilty of taking secret commissions on buying and selling transactions.

(d) Since the managing agents exercise almost supreme control over the affairs of the company, the directors cease to take any active interest in the progress of the concern. Thus very often lack of enterprise is found and conservatism becomes the policy of the firm.

Although these criticisms are made against the managing agency system, there are also some good points which should be considered in judging the utility of the system. Good points in favour of the Managing Agency System are :—

(a) Indian capital and enterprise are very shy. They were more so some decades ago. In view of the fact that every business concern involves some risk, the enterprise which was shown by the managing agents at that stage was commendable and conducive to the progress of certain industries. There is reason to believe that had there been no managing agents, industrial progress would have been slower. The jute mills, the textile factories, the tea industry and the iron and steel industry owe their existence and success to managing agencies.

(b) The joint-stock spirit is of recent growth ; so the managing agents did a service to the country by providing capital for many business undertakings. The financial services performed by managing agencies to Indian industries have been very great indeed. They promote companies and induce their friends and relatives to buy shares. They guarantee the advances of banks to companies and in times of crisis, they have staked their entire resources in enabling companies to tide over the crisis

(c) If the managing agents were guilty of earning large profits, they have had to suffer large losses also during the depression years.

The Managing Agency System still prevails, but subject to more control and supervision by Govornment

officials. There is no denying the fact that in the light of modern conditions the system requires to be modified in certain respects.

The Indian Companies Amendment Act of 1936 contains the following provisions for removing the evils of the managing agency system : (1) The tenure of managing agents is limited to 20 years after which they can be re-elected. (2) The Managing agents cannot nominate more than 1/3rd of the directors (3) The payment of commission on output or sale to the Managing agents is prohibited They can receive a fixed remuneration and a percentage on net profit. (4) The appointment of managing agents for banking and insurance companies is prohibited. (5) The management of competing firms by a managing agency has been restricted.

Q. 67. What is economic planning? State and criticise the chief proposals of the Bombay Plan.

Ans. Economic planning means the abandonment of *laissez-faire* in whole or in part, in the fields of production and distribution of commodities and services. Where there is no plan, the economic system works "automatically" through the profit-making motives of numerous individuals or a few monopolists. Such automatic working fails to bring about full employment of resources, to raise the standard of living of the masses and to establish a harmonious international order. An economic plan formulates certain ends to be achieved which are considered to be the most desirable by the community and works out a programme of state and individual action for the realisation of those ends. In

brief, an economic plan may be defined as the collective decision of the community as a whole for the utilisation and distribution of productive resources according to a definite pattern. This pattern may differ little or much from the *free market pattern* and the degree of state action envisaged may be anything between the minimum and the maximum. Thus economic plans may be of various types ranging from the near capitalist to the completely socialist.

The outstanding success of the Soviet Five-year Plans inspired many in India to think of the possibilities of similar development in India. Sir M. Visvesvaraya was the first in India to prepare an outline plan for India. The Indian National Congress set up a National Planning Committee under the Chairmanship of Pandit Jawaharlal Nehru. This Committee and its many sub-committees did not however, finish their labours. During the war, eight Bombay Industrialists came out with the famous Bombay Plan (also known as the Tata-Birla Plan) which has been widely discussed in India and elsewhere.

The object of the Bombay Plan is to double the per capital income and treble the total national income within a period of 15 years. The Plan seeks to reduce the present overwhelming preponderance of agriculture and establish a more balanced economy. To the national income, the contributions of an industry, agriculture and services are 17·53 and 22 per cent respectively. The Bombay Plan seeks to change the percentages to 35 and 25 respectively. On the basis of these figures the agricultural output will have to be raised five times in 15 years.

The plan envisages a total expenditure of Rs 10,000 crores The finance is expected to be realised from the following sources :

External Finance................(Rs. Crores)		
Hoarded wealth	300	
Sterling Balances	1,000	
Balance of Trade	600	
Foreign Borrowing	700	
		2,600
Internal Finance Savings	4,000	
Created Money	3,400	7,400
		10,000

This money is to be spent according to the following plan :—

1.	Industry	4,480
2.	Agriculture	1,240
3.	Communication	940
4.	Education	490
5.	Health	450
6.	Housing	2,200
7.	Miscellaneous	200
	Total	10,000

The expenditure is scheduled to be Rs 1,400 crores during the first five years ; Rs 2,900 crores during the last five years.

The plan divides industries into two groups :—

1. Basic industries and
2. Consumption goods industries.

Among the basic industries the plan emphasises the following :—

(1) Power—electricity which is given the first place.

(2) Mining and metallurgy—iron and steel, aluminium, manganese etc.

(3) Engineering—machinery and machine. tools

(4) Chemicals—heavy chemicals, fertilisers, dyers. plastics, pharmacess deals, etc.

(5) Armaments

(6) Transport-railway engines, and wagons, ship-building, automobiles, aircraft, etc. and

(7) Cement.

Among the consumption goods industries the following are to be further developed—textiles, glass, better goods, paper. tobacco and oil. Both small scale industries and large scale industries are to be developed.

In the sphere of agriculture, the Plan recommends the following measures :— (1) increasing the production of food crops so as to insure a more nutritive diet to the population, (2) co-operative farming as a remedy for sub-division and fragmentation of holdings, (3) afforestation to prevent soil erosion, (4) reclamation of culturable waste lands, (5) establishment of a model farm for every group of 10 villages.

In the sphere of communications the Plan seeks to add 21,000 miles of new railway lines and to double the existing road mileage of 300,000 millions.

The calculations of National income and capital

expenditure are based on the assumption of the pre-1939 value of the rupee.

Regarding the role of the state the plan is vague and the authors have not gone into details The general picture we get is one of state-controlled capitalism. The sort of modified capitalism advocated by Pigou is held as an ideal by the authors of the plan. State interference may take three forms :—(i) state ownership, (2) state management, (3) state control. State ownership and management are to be reduced to the minimum. The existence of a National Government is held to be essential for the success of the plan. The state is obviously to be the chief financing authority. The state will be responsible for maintenance of wage standards, settlement of industrial disputes, control of prices and profits and a more equitable distribution of income through progressive taxes and other means.

The Bombay Plan has been ,cirticised on the following grounds :—(1) Inasmuch as it does not explain how the colossal investment of Rs 10,000/- crores is to be brought about, it consists merely of a series of arithmetical exercises. (2) It is a capitalist plan : It says little about safe-guarding the interests of labour and better distribution of wealth. (3) It neglects agriculture and small industries. It is a big business plan. (4) The most serious criticisms are levelled against the financial proposals of the plan. It has been pointed out by Mr. Schu—Macher of Britain and Mr. Sheenoy in India that the authors of the plan are guilty of double or treble counting. The foreign balanse is really a part

of India's current savings and should not be counted separately. Similarly created money can increase Capital wealth only by reducing consumption and imposing real savings on the people. Thus the Plan can only be financed by imposing on the people a saving of 12 to 16 per cent of the income. This will inflict terrible hardships on the people. If the Government does not impose this hardship through taxes or forced loans, then there is bound to be inflation of a kind witnessed during the war. The frightful privation economy of the war will be carried forward to the post-war period. Though there is some truth in all this criticism, it must be observed that *if created money succeeds in employing unemployed, under-employed and mis-employed resources, it* may not impose forced saving and hardship on the people to the extent apprehended.

Q. 68. Discuss the effects of the last war (1939-45) on Indian industries. (Cal. B.A. 43 ; Dac. 42 ; Agra 42).

The last Great War of 1914-18 had given a great impetus to Indian industries. The last war too caused an immense development of Indian industries.

India had become a great base of military operations. To supply the war requirements of the armies it had been found necessary to develop Indian industries on a very large scale. The last Viceroy observed that of the 40,000 items required by the Military Department 20,000 were produced in India.

Besides, the war had cut off more than half of India's normal imports. Hence India had to produce many of the things which she used to import for civilian consumption.

Of the new industries the following may be mentioned.

(a) Drugs and Chemicals, such as Bleaching Powder, Caustic Soda, Mepacrine etc. Dyes, *Aircraft at Bangalore*, assembling of Motor Vehicles as at Bhabanipur, Shipbuilding Yard at Vizagapattam ; Oil and Oil product industries : Electrical goods ; produce Gas plants etc.

Further the old industries also received great encouragement. The production of cloth, Paper etc. has increased many times.

Yet, it must be admitted that compared to the progress achieved in Canada and Australia, industrial progress in India is very unsatisfactory. The Government have not given active support to Automobile, Shipbuilding and Aircraft industries. Machine and Machine tools are not manufactured in India on an adequate scale Railway Locomotives are not manufactured On the ground of shipping and other difficulties, machines have not been imported from America on a large scale The Scheme of Grady Commission for rapid industrialisation of India has been turned down. Most of the industries are purely on a war basis, and will come to grief when the war stops. On the whole we can say that the effect of the war on Indian industries are quite likely to be temporary unless the Government takes active steps to protect and encourage Indian industries when the war comes to an end.

CHAPTER X

Industrial Labour and Its Problems

Q. 69. "Labour Legislation in India is still in its infancy." Examine the statement and describe the measures passed with a view to improve the conditions of Indian industrial labour. (Cal. B. Com. 26.)

Labour Legislation in India does not occupy the same important position as in the highly industrialised countries of the west, like England, Germany and the U. S. A. Because of the difference in climatic conditions much of the work is done in India in open areas or in sheds without walls Hence the problems of overcrowding, bad ventilation and the undesirable free mixing of both sexes are not so acute in Indian industries as they are in the West But with the steady progress of industrialisation and the growth of large factory towns like Bombay, Calcutta, Ahmedabad, Cawnpore, Jamshedpur, etc. problems relating to industrial labour are gradually coming into prominence in India. And here it must be admitted that Indian industrialists have failed to profit by the experience of the West. They have failed to realise that a contented and well-fed labour *force is one of the main causes of industrial efficiency.* Without the excuse of ignorance, certain familiar abuses like *slums, the exploitation of child labour, long hours of work, bad sanitation,* etc. have been allowed to appear in the midst of Indian industries. Strenuous efforts are, however, being made to remedy the harmful effects of these abuses. The working classes are gradually becom-

ing more and more conscious of their importance, rights and privileges. Many labour associations and unions have been formed to safeguard the interests of labour. There is also a better realisation on the part of the State of its duties to labour. India has also accepted the obligations imposed by the International Labour Organisation of the League of Nations. The combined result has been that labour legislation is coming to occupy a more and more important place in our industrial structure.

Whitley Commission.—Whatever may be said about the past, with the implementing of many of the recommendations of the Whitley Commission on Labour in India (1931), labour legislation in India has certainly outgrown its period of infancy and has come more into line with labour legislations of western countries. Here it is pertinent to point out that the pace of beneficent labour legislation should not outstrip the capacity of the industries in general to bear the burden which it necessarily imposes on them. It is argued in some quarters that the recent labour legislation in India has been inspired not so much on humanistic grounds or the ultimate gain to industries resulting from increased efficiency of industrial workers as to confer on British industries a competitive advantage over Indian industries by increasing the labour cost of the latter. There might be some force in this form of argument; nevertheless it is desirable that determined State action should be taken for remedying the well-known evils that generally go on with industrialisation.

First Factory Act.—The first Factory Act in India

was passed in 1881, which was followed in rapid succession by the Act of 1891. But the Factory Act of 1911, which implemented the recommendations made by the Factory Commission in 1907, may still be regarded as constituting the main structure of labour legislation in India. By this Act, seasonal factories were brought within control. Various restrictions were placed on the employment of children and women in factories. The working hours of adult workers were for the first time limited to a maximum of 12 hours a day with an interval of ½ hour. More extensive provisions relating to the health and safety of the workers were also made in the Act, and administration of factory laws were made more stringent. The War of 1914-18 led to a greater awakening among the workers about their rights and privileges. Partly as a result of this and partly as a result of the influence of the International Labour Conferences the Factories Act of 1922 was passed. By this Act, the factories using mechanical power and employing not less than 20 persons were made subject to control. Local Governments could extend the operation of the Act, if they so desired, to factories employing not less than 10 persons, whether using power or not. The minimum age for children was raised to 12 years and their maximum hours of work were limited to 6 hours a day. Employment of children and women in some dangerous processes and during the night was prohibited. The hours of work for adults were fixed at 11 hours a day and 60 hours a week. The Act provided for at least an hour's daily rest and a weekly holiday for all workers. This Act was further amended in 1923, 1926 and 1931 on some minor

points. Meanwhile in 1931 the Royal Commission on Labour in India (Whitley Commission) submitted its report. A consolidated Factories Act, implementing the suggestions of Whitley Commission, was passed in 1934. Under this Act, the maximum hours of work for children were fixed at 5 hours a day, and they could not be employed in factories at night. Children between the ages of 12 and 15 years were prohibited from being employed in some hazardous processes. The hours of work for adults were further reduced to 54 hours a week and 10 hours a day in the case of perennial factories. But in seasonal factories men were allowed to work for 60 hours a week. Thus a distinction was made between seasonal and perennial factories. Provisions were also made for the improvement of health and safety of workers Drinking water, first-aid appliances, creches where 50 or more women were employed, etc. were compulsorily provided for in the Act. Infringements were to be penalised with heavy fines. This Act was further amended in 1936, whereby larger powers were conferred on Provincial Governments with reference to its administration.

Besides, Acts have also been passed for different industries, such as coal mining and tea, which require special regulation. The Indian Mines Act 1923, as amended in 1935, now regulates employment of miners in Indian mines. Under the provisions of the Act, now in force, children below 15 years of age cannot be employed in or about a mine. Restriction has also been placed on the hours of work of adults. The weekly hours above ground have been fixed at 54 hours, while the maximum number of hours of work below ground has been fixed at

9 hours a day. Employment of women underground has also been regulated. Similarly, under the Tea Districts Emigrant Labour Act of 1932, recruitment of labourers from other provinces, mostly from Bihar, U. P. and Madras, can only be made by persons holding a special licence for the purpose. A Controller of Emigrant Labour has also been appointed to check the abuses connected with the system of recruitment from distant villages. Workmen also need protection against accidents that they may meet with in course of their work. So, in 1923 the Workmen's Compensation Act was passed, the principle being that compensation should be paid to workmen who had sustained injuries by accidents arising out of and in course of employment. Compensation in case of some occupational diseases is also allowed under the Act. The amount of compensation depends upon the nature of the injury and the average earning of the worker. The Act has been subsequently amended in 1933. Provincial Governments have been empowered under the Act to appoint Commissioners for workmen's compensation whose duty is to administer the Act and to settle the amount of compensation. A Maternity Benefits Act has also been passed in several provinces, *e. g*, Bombay, Madras, C. P. and U. P. The period of benefit is not generally granted for more than 8 weeks, and a woman has to work for a continuous period of at least 9 months to be entitled to this benefit. Another important piece of legislation is the Payment of Wages Act of 1936, which enjoins that the wages of workers must be paid within seven days of the conclusion of the wage period and within two days in case of dismissal. Before 1917

strikes were rare phenomena in India, but with the conclusion of the War, unrest among the workers grew in intensity and they became more conscious of their wants and legitimate demands. The outcome has been the growth of a large number of trade unions all over the country A decision of the Madras High Court in 1920, giving an injunction restraining trade union officials from influencing the labourers to break their contracts with the employers by strikes, however, revealed the necessity of legislation for the registration and protection of trade unions in India. Accordingly the Trade Union Act of 1926 was passed, which conferred certain valuable privileges on registered unions, such as immunities to trade unions or their officials from civil and criminal suits in respect of acts done in furtherance of all legitimate objects of the union. In 1929 the Trade Disputes Act was also passed to deal with industrial disputes and their settlement The Act provides for the setting up of Courts of Enquiry and Conciliation Boards to which disputes are referred to by the parties concerned, either separately or conjointly. The Act also contains provisions, rendering punishable by fine or imprisonment, lightning strikes and lock-outs in certain public utility services like railways, postal and telegraph service, gas or electric service, etc. In certain cases strikes have also been rendered illegal under the Act. But in one direction, *viz.*, social insurance, India still lags behind western countries. No statutory provision has yet been made for protecting workers against hardships arising from sickness, unemployment and old age. While amelioration in this direction is desirable, it is necessary to bear in

mind two considerations in this connection. In the first place, the capacity of the industries to bear additional burdens should be adequately considered ; secondly, such schemes of social insurance must be made on a contributory basis from all the interests affected, *viz.*, the State, the employees and the employed. Hence, whatever might have been the position in respect of factory legislation in India at the beginning of the present century, considering the stage of her industrial development at present, it cannot be said to be insignificant. The State has done its part of the duty by various enactmants. What is needed is a greater alertness on the part of the industrial workers to take larger advantage on the protection already afforded by statutes.

Q. 70. What part does labour play in the economic progress of a country? Do you suggest that inefficient or wasted labour is one of the causes of India's economic backwardness? (B. Com., 1929.)

Economic progress of a country is vitally dependent on its labour supply. *By labour should be meant not* only the number of workers but also their efficiency. A highly developed state of industrialisation, no less than a prosperous agriculture, requires a plentiful supply of skilled and efficient lobour. A prosperous agriculture is dependent on a painstaking, persevering, thrifty and toiling peasantry. So also the industrial progress of a country is dependent on its supply of skilled and efficient labour. Labourers should be sufficiently alert and intelligent to tend highly complicated machineries which are now-a-days used largely in modern factories. And unless industries are run on large scale basis, economy

of production can hardly be achieved, and economic progress remains a distant chimera. It must be admitted that Indian labourers are of lower efficiency as compared with their western compeers. The causes of their low efficiency are numerous. They have hardly any facilities for technical training or acquiring mechanical skill. Their low efficiency is also partly the result of their low standard of living which in its turn produces poor physical energy and mental vigour. Bad housing and insanitary conditions in which workers have to live also are prolific causes of various diseases which cut their efficiency. The migratory habit of the Indian labourers is also one of the causes of their lower efficiency. Hence it is admitted on all hands that low efficiency of industrial labour in India is one of the prominent causes of her industrial backwardness. Indian industrialists very often complain of the handicaps from which they have to suffer for being compelled to employ unskilled labour. Machineries are very often put out of order due to inefficient hadling. Much wastage of time and money is caused thereby. Just as, therefore, improved appliances, method and technique of prodnction are necessary for the industrial progress of a country, so also skill and efficiency of the labourers are no less necessary for the realisation of that aim.

Q. 71. How do the standard of living and vital and health statistics help us to study the efficiency of Indian labour? What conclusions can you derive from them? (B. Com., 1936)

The efficiency of labour rests upon a number of factors, such as, the physical conditions of the labourers, their character, intelligence and training. These latter

conditions in their turn are very powerfully influenced by their standard of living. A higher standard of living goes with higher wages, and higher wages cannot be maintained for long without higher efficiency. On the other hand, a low standard of living leads to lower wages and consequently to lower efficiency. A high standard of living means that labourers have an adequate and well-balanced diet, live in better houses and sanitary surroundings, have better facilities of education, and the incidence of diseases and mortality among them is low. These things will lead to an increase in the efficiency of labourers. Similarly, vital and health statistics of labourers furnish basis for measuring the efficiency of labour. If a labourer is healthy and possesses a strong physique, he will naturally prove more efficient than one who has a weak constitution and very often suffers from enervating diseases like malaria, kalazar, dysentery, etc

In India we find ample proof of the remarks made above. *The standard of living of the masses is very low.* They live on an insufficient diet. Their very low income is hardly sufficient to ensure a better standard of living. Even whatever low income they earn is not always wisely spent because of their ignorance Moreover, the industrial workers not only live in insanitary bustees, they are heavily over-crowded too. But what is more tragic is that their low standard of living has produced a fatalistic attitude towards life due to which they do not even feel the urge of improving it. As a result their efficiency is very low as compared with the labourers of the West. Consequently, their wages are also very low. Because of their low wages again, they are not in a position to

maintain a better standard of living. Their low standard-of living is both the cause and the effect of their low wages. Thus the whole thing moves in a vicious circle. Again, the vital and health statistics reveal that the average expectation of life is very low in India and the incidence of diseases among the lower strata of society is very high. The rate of mortality is also very high. The ravages caused by such preventible diseases as malaria, kalazar, dysentery, hookworm, etc. every year are appalling. The physique of an average Indian worker does not bear comparison with a western labourer. The economic waste due to loss of working days from various diseases must be enormous in the aggregate. All these imply that the physical conditions of Indian labourers is very bad. As a result, the average efficiency of Indian labourers is also low.

Q. 72 Examine the problem of industrial labour in India. (B. Com., 1939).

The great majority of factory workers in India are at heart villagers ; they have in most cases a village upbringing, they have village traditions and they retain some contact with the villages. This fact has given rise to the migratory habits of the industrial workers in India. They look upon work in factories as a disagreeable necessity and return back to villages whenever circumstances permit. The city has no attraction for them. They are not pulled to the city by any great ambition, but are pushed to it. So they do not care to take any great interest in their work. The result is their proverbially low efficiency. Even an increase in wage rates does not goad them to make efforts for increasing efficiency ; on

the other hand, it is very often followed with increased absenteeism. Indian labour is also migratory in another sense. On the slightest pretext they frequently change factories. This is disadvantageous both to the employers and the employees and leads to a loss of efficiency on the part of the latter.

The causes of this low efficiency are complex. "Some are to be found in the climate of India and other factors; but a powerful influence is exercised everywhere by the low standard of living. Inefficiency is attributable to lack of both physical energy and mental vigour. These are to a large extent different aspects of the same defect, for physical weakness cuts at the root of ambition, initiative and desire. This weakness arises from the hardships to which the worker, who starts with an indifferent physique, is subjected and especially his unsatisfactory diet and the conditions under which he is generally compelled to live." The efficiency is also greatly impaired due to the conditions of work, *viz*, ill ventilation of factory houses, excessively long hours, insanitary bustees, etc. Due to these causes diseases also have a great opportunity to thrive among the labouring classes. Illiteracy of the workers and the lack of opportunity for technical training are also responsible for their low efficiency. These hardships and conditions are mainly the result of inability to afford anything better, and this in turn arises from low efficiency. Thus poverty leads to bad conditions, bad conditions to inefficiency, and inefficiency to poverty. The vicious circle should be broken at as many points as possible. There must be an endeavour to enhance efficiency, to heighten earnings and to improve the conditions of life.

Unless remedial measures are adopted to increase the efficiency of industrial workers, it is idle to expect a satisfactory industrial progress in India. Obstacles in the way are many but it is not impossible to remove them. The spread of education, both general and technical, better housing and an extension of the general welfare work would go a long way in improving the efficiency of workers. The filthy bustees and slums have to be cleared up and model dwelling houses should be provided at a moderate rent to the workers. Sanitation and public health of the mill areas should also be improved by means of better provision of pure drinking water, better drainage system, etc. This would surely lead to an improvement in the physique of the workers and consequently in their efficiency. General welfare work, such as, unemployment and sickness insurance, medical facilities, maternity benefits, etc. should also be more vigorously carried on among the industrial workers. Their wage rates, which are ridiculously low should also be raised to fair levels which would ensure a reasonable standard of life. Though increase in wages might be dissipated in wasteful expenditures during the initial stages, it is sure to lead to an increase in efficiency in the long run.

Q 73. Examine the causes of the comparatively low wages paid to labourers in India. (B. Com., 1940 ; B.A. 1937.)

The average monthly or weekly earnings of an Indian labourer are very low and barely sufficient to sustain him and his family. Enquiries have been made into the wages of workers in various parts of the

country and in various industries. But the general scale of wages is everywhere low. Generally speaking, wages range between Rs. 1-8 as. per day for skilled workmen and 6 as for unskilled labourers The first and foremost cause of the low wages of Indian labourers is their low efficiency. As regards the causes of their inefficiency, their name is legion. (These causes have been discussed at some length in answers to questions 77 and 78). The most potent cause of their low efficiency is their low standard of living. They cannot afford to have sufficient wholesome food and are compelled to live in *huts* or *bustees* in the midst of insanitary surroundings. The clothing that they can afford is too scanty even for a warm climate. Their expenditure on education is almost nil. Practically no furniture worth the name they have got. A considerable portion of their income is spent up in paying interest on debts, either ancestral or incurred by themselves. Their low standard of living in its turn produces lower efficiency. The whole thing moves in a vicious circle. Another factor which also influences wage rates is the abundant supply of cheap unskilled labour. It is, therefore, desirable that wage rates in India should be increased as a first step towards keying up labour to a higher state of efficiency. It might be that in the initial stages increased wages would not be spent wisely and would either be dissipated or lead to greater idleness on the part of the labourer, instead of raising his standard of living and consequently his efficiency. But if the increase in wages is given gradually and is accompanied with various labour welfare measures, this phase

of foolish expenditure might be avoided. Ultimately an increase in wage rates would surely lead to an increase in efficiency, which would by itself justify higher wages, and in general economic welare of the country.

CHAPTER XI

Transport and Communications.

Q. 74. "The railways in India are owned and worked under a variety of condition". Examine with reference to the history of railway construction in India the circumstances that account for this variety. (Cal. B.A. 25, B. Com. 42).
Examine the arguments for and against the state management of railways in India. (Cal. B.A. 24, 33, 39; B. Com, 37, 42, 43; Agra, 39).
Define (1) Guaranteed Railways and (2) State Railway. Which of the two systems of Railways would you like to have in India and why? (B. Com. 1924; B.A. 1924.)

Railways in India have been constructed and managed under a variety of conditions. The E. I. and G. I. P. railways were constructed under the old guarantee system. They are now owned and managed by the Government. The B. N. R. was constructed under the guarantee system. It is owned by the Government but managed by the Company. There are also light railways which are owned and managed by private companies. Some railways were owned by the Native States.

Old Guarantee System :—The old Guarantee System

of railways was that railway lines were to be constructed by railway companies incorporated in England enjoying a guarantee of certain special terms from the Government of India. The terms enjoyed by the old guaranteed companies were mainly (a) a guaranteed rate of interest of 4½% to 5 per cent (b) free grant of land and (c) utilization of half the surplus profits earned by the companies to repay Government any sums previously paid by it. The Government, of course retained the right of some control and supervision and also the option of purchase of lines after 25 or 50 years at the current market price of the shares. This system, however, did not prove financially very satisfactory. Under this system the Government of India shouldered an unlimited financial responsibility. The companies have no motive for economy because interest was guaranteed. The rate of interest guaranteed was needlessly high as subsequent events proved.

New Guarantee System :—The new guarantee system was introduced from 1879 onward. It differed from the old system in certain features. (a) The lines constructed by the Companies were declared to be the property of the Secretary of State for India who retained the right to determine the contracts at the end of 25 years approximately ; (b) interest was guaranteed at a lower rate of 3½ per cent. and (c) Government retained a much larger share of the surplus profits for its own benefit, usually three-fifths. (d) Government reserved the right to purchase the railways at the par value of the shares.

(2) *State Railways* :—The system of State railways

means (i) State construction and management and (ii) purchase of Company-owned railways and management thereof. This policy originated from the period when the system of guaranteed railways proved financially unsound. In 1869 the Government decided to undertake the construction and management of railways directly and to borrow £2 millions for this purpose. But this policy was soon given up on account of the financial strain imposed by repeated famines and by the Afghan Wars.

What is the suitable system for India? This question has now lost its importance for the reason that a policy of State-owned and State-managed railways has already been accepted by the Government of India The Acworth Committee (1920) which was appointed to examine the whole question of a suitable railway policy considered this problem of State railway versus company-managed railways. The Committee advanced the following arguments on behalf of the State management of railways in India :—

(a) Since most of the railways were owned or managed by companies of British domicile, the non-official opinion mostly wanted this system to go. For this reason and also for the unsatisfactory working of the guarantee system, a policy of State railways has already been initiated.

(b) Theoretically private enterprise in railway administration may be desirable, for it has the virtues of flexibility and greater responsiveness to public requirements, but since conditions in India are different, the case for State railways has a special importance for India.

trade and commerce. The following methods of manipulation may be specially mentioned :—

(a) Rates should be so framed that the outward traffic from within the country to the ports is facilitated, for thereby the export trade may be promoted.

(b) In order to assist new industries, special concession rates may be offered for the cheap transportation of raw materials and for the finished products as well, if that is necessary. The Industrial Commission recommended that the rating of the internal traffic should be effected as nearly as possible on a basis of equality with traffic of the same class and over similar distances to and from the ports, so as to encourage the transformation of the raw materials into the finished state before export.

(c) In order to promote agricultural development and thereby help increased exports of agricultural goods, special rates should be offered for the transport of agricultural machinery, fertilisers, and agricultural products.

(d) The "block rates" system which favours an artificial diversion of traffic inconvenient to industry and trade should be avoided as much as possible.

Q. 78. State briefly the recommendations of the Acworth Committee in order to prove the condition of the Indian Railways. Examine the arguments for the separation of Railway finance from the general finance in this country. (B. Com., 1938 ; B. A. 1927.)

The Acworth Committee was appointed in 1920 to examine the entire railway policy of Government and to make recommendations for a new lead in the matter. The principal recommendations of the committee were :

(a) Although there are certain good points in Company management of railways, conditions in India would justify a policy of State control and management.

(b) In order to eliminate the elements of uncertainty in the central budget, railway finance should be separated from the general budget.

(c) The Committee recommended that in order to decide disputes between railways and trades, a Rates Tribunal should be established to adjudicate between the railways and the public in the matter of rates and fares levied by the railways.

(d) The Railway Board should be so reorganized as to render it a suitable machinery through which the Government of India could exercise an effective supervision over the whole railway system in India.

(e) In order to give the Indian public a voice in railway management, Railways should set up central and local Advisory Committees.

(f) Indians should be given facilities in the superior services of Railways at a progressive pace.

Many of these recommendations have been or are being carried out, in full or partially. Some of their recommendations have also been carried into effect in a modified form

The main arguments in favour of the separation of railway finance from the general finance were as follows:—

(a) Since the railway earnings are variable according to the trade conditions within the country the railway budget being a part of the general budget introduced a large element of uncertainty which was not good for the

country. Hence the Acworth Committee recommended separation between the two.

(b) Railways if linked with the general budget cannot be run on a commercial basis, for according to the convention of the general budget, the railways were assumed to go out of business on the 31st March and to begin life afresh on the 1st April of every official year. This arrangement was inconvenient for their running as a business under-taking. The capital development of railways was likely to be seriously hampered and done wastefully by the inclusion of the railway budget in the general budget.

The arguments are assuredly very convincing and when the question of separation was raised, the uncertainties of railway finance called for a break with the general finance, because it was not advisable that the financial position of the Government should be made so interconnected with the uncertain earning capacity of an essentially commercial undertaking. From the standpoint of the efficient running of Railways also, such a separation was desirable Subsequent developments also justified this step. The separation scheme became effective in 1925.

The separation convention adopted in 1924 provided for contribution from the railway budget to the general budget according to the following plan : one per cent. of the capital at charge on the commercial railways excluding the capital contributed by the companies and the Indian States plus one fifth of the surplus profits in a year, the interest on capital at charge on strategic lines and the loss on working being deducted. If after paying

this contribution, the amount available for transfer to the railway reserve fund exceeds Rs 3 crores, one-third of the excess should be paid to the general revenue. From 1930 to 1936, the railways failed to make the stipulated contributions owing to general depression. From 1936 the contributions were resumed but the arrears were fully paid only during the war years when the railways earnings soared to unprecedented heights. In 1943 a new convention was adopted under which the allocation of the surplus between the railway revenues and the general revenues is determined each year on consideration of the relative needs of the railways and the general budget.

Q. 79. What are the grievances of Indian traders and industrialists against the Indian Railways? Suggest some possible remedies. (B. Com. 1938, B. A. 1935.)

The grievances of Indian traders and industrialists against Railways are principally against their rates policy and may be summarised as follows :—

(a) It is believed that the rates policy of the railways is manipulated for the pecuniary advantage of the railways themselves.

(b) It is manipulated to the interest of the European commercial enterprises at the cost of Indian interests.

(c) It is complained that the rates policy is manipulated in a manner which encourages "traffic to and from the ports at the expense of internal traffic, thus encouraging the export of raw materials and the import of foreign manufactures"

(d) It is also complained by business people that the railway rates are unfair both to raw moterials which have to be obtained from different markets and to

manfactured goods to be sent to different markets. On the whole railway freight rates do not favour Indian industrial development.

(e) As regards passengers' fare, the complaint against railways is that it is not often equitable and besides, the facilities of travel offered to lower class passengers are not at all satisfactory.

(f) It is maintained that one of the important effects of railway policy has been the concentration of industries at port towns which is not beneficial to the diversified progress of industries.

Many of these defects are being gradually remedied. Since the railways are coming under Government control and management one by one, the grievances of the public are receiving greater attention at the hands of the railway authorities. Facilities for lower class passengers, although not yet satisfactory, have been improved in many lines. As regards an equitable rates policy, all that is desirable has not been carried out. But now the working of the Railway Rates Tribunal has provided a body for adjudging railway rates as they affect the trade and industry of the country. Although all decisions of the body have not been fully satisfactory, its working ensures better justice than before. The main feature of an ideal railway rates policy should be that it may pursue a definite policy of encouraging the trade and industry of the country.

Q. 80. What is the present position of shipping in India? Discuss the necessity or otherwise of developing India's own mercantile marine. (B. Com., 1941.)

The total value of India's sea-borne trade in merchan-

dise and treasure exceeds Rs. 600 crores annually. Of this at least Rs. 500 crores worth of goods is handled by the four premier ports of India, *viz.* Calcutta, Bombay, Madras and Karachi. In this volume of trade the share of Indians is very meagre. It is estimated that in coastal trade Indians possess only 13% and in oceanic trade only 2%. The total earnings of shipping in Indian Ocean have been estimated to be more than Rs. 53 crores of which at least Rs. 50 crores go to foreign shipping companies

The Indian shipping companies are relatively weak in comparison with the powerful combination of British Companies under the name of "Conference". In two respects, Indian Companies suffer from a great handicap, *viz.* (1) in respect of Deferred Rebate System, and (2) Rate wars. The Deffered Rebate System is utilized by the Conference of British Companies in ensuring the continued loyalty of the shippers. They pay back a certain amount of freight only to those shippers who ship their entire goods only through them. By this method many indigenous enterprises have been throttled. Besides, in respect of rates Indian shipping has had always to suffer great disadvantages.

Mr. Haji's Bill.—In order to enable Indian shipping companies to grow up, a Bill for the reservation of coastal shipping to Indian Companies was brought in the Indian Legislative Assembly in 1928 by Mr. Haji ; but owing to the opposition of foreign interests, the Bill could not be carried through.

Principal difficulties for Indian shipping.—(1) India does not possess a ship-building industry of her own ; (2) there is no national legislation to assist Indian enterprises

against undesirable foreign competition; and (3) the vested interests of British Companies are always opposed to India's economic aspirations.

Need for a Mercantile Marine.—The need for a mercantile marine of India is unquestioned. Every nation takes great pains in building up its mercantile marine for a number of pressing economic considerations. (a) In the first place, it is favourable to the growth of sea-borne trade; (b) it means a ship-building industry with all its allied lines of subsidiary industries in the country; (c) it means a career for the youngmen of the country; and (d) it may serve as the second line of defence in war times, for without a mercantile marine no country may be said to have a navy worth the name. The present war has clearly revealed the urgent need for having a ship-building industry of India's own. Lack of shipping facilities has not crippled a little India's foreign trade. It is a gratifying fact that recently the Scindia Steam Navigation Co. has laid the foundation of a ship-building industry at Vizagapatam.

Q. 81. How can co-ordination be effected between road and rail transport in India? What are the principal difficulties and how do you propose to overcome them? (B. Com., 1938; B. A. 1936.)

The Government of India directed their attention to the problem of the co-ordination of rail and road transport in 1933, and they deputed Mr. Mitchell and Mr. Kirkness to report on the state of road and rail competition and the possibilities of their future co-ordination.

Recommendations of Mitchell-Kirkness Committee.—They recommended that the comprehensive plan of road

development should take into consideration the possibility of linking the more important villages with the public road system. They further recommended that the evils from which public service motor transport is suffering are largely due to excessive competition and unemployment among buses, and their concentration on the more populous routes. The number of licences for buses on any route might be restricted, the issue of time tables, publication of schedules of fares, and compulsory insurance might be prescribed. They also recommended that railways themselves should operate motor transport on parallel roads and further that they should be protected from uneconomic competition

For the purpose of the co-ordination of different types of transport, they recommended the concentration of the functions of the Central Government in respect of all forms of communications and transport into one department, and suggested the creation of Provincial Boards of Communications. They further suggested that it was desirable to provide for co-operation and co-ordination outside headquarters of Government; there might be Divisional Committees not only to advise on the control of motor transport but also, within their sphere, to be small counterparts of Boards of Communications.

Railway Conference.—Soon after the publication of the Mitchell-Kirkness Report the Government of India convened a Road-Rail Conference, at which the representatives of Provincial Governments and of Class I Railways were present. The Conference after full discussion adopted the following resolutions :—

(i) The Conference is of opinion that, in the general public interest, the time has come for increased co-operation and more intelligent co-ordination of efforts between the various authorities and interests concerned, in the matter of :—

(a) further Railway development, and of

(b) the further development of road communications, whether used for motor transport or other purposes, so as to secure a more comprehensive and uniform plan of general development than at present exists.

Indian Motor Vehicles Act.—To give effect to these resolutions the Central Government brought forward a bill to amend the Indian Motor Vehicles Act of 1914, but on account of strong opposition the Government did not proceed with the bill. A new bill, in a more elaborate form, was introduced in April and carried in September, 1938.

The main provisions of the Act are :—

1. The establishment of Provincial and Regional transport authorities.

2. More stringent rules for the licensing of drivers and punishment to drivers if the cars are driven by unlicensed persons.

3. Licensing of motor vehicles and restrictions about their use on public roads.

4. Fixation of hours of work of the drivers.

5. Power given to Local Governments to stop or control motor transport on any road for any class of vehicles, and for any period.

6. Compulsory insurance including insurance

covering third party risks. (This would not operate till 1943).

The bill made no provision about the manner of spending licensing fees, fines and other taxes, but left it to the Local Governments to utilise these, if they desire to do so, for the maintenance of the roads.

The case for co-ordination.—The rail and road competition has come to stay and for the economic development of the country, both systems of transport are indispensable. We cannot annihilate the one or the other. We should attempt to solve the problem, however difficult and complex it may be. There are three essential points which should be kept in view in order to arrive at an equitable solution.

(1) Motors should pay proportionate costs of roads.

(2) Private enterprise should not be stifled.

(3) Legislation should not cripple free development of road traffic by taxation or unnecessary restrictions. Differences should be settled by mutual consent.

The representatives of railways have agreed that they would be satisfied, if the motor traffic pays the proportionate costs of the maintenance of the roads they use. This opinion was expressed by the representatives of British Railways before Sir Arthur Salter's Committee.

To expedite traffic and to minimise accidents, it is desirable that at least on the trunk lines, roads for fast traffic should be separated from those used for slow traffic. The cost of construction and the maintenance of fast traffic roads should be borne entirely by motor transport. Separation has been successful in several

countries, especially in Germany. In India fast traffic roads are separated between Delhi and Shahdara and at several places in Gorakhpur District. The cost of maintenance of ordinary roads which were constructed before motor service came into existence and which are used by pedestrians, cyclists, bullock carts, and camel carts and which are used for all civil and military purposes (called community use), should be borne only partially by the motor transport. Provinces and local bodies collect taxes for the maintenance of roads and the cost of maintenance of motor roads which are also utilised for community uses should be borne by taxes raised by Local Governments specifically for improvement of roads, *and by taxes on motor vehicles in equitable proprotions.*

CHAPTER XII

The Trade of India

Q. 82. Discuss the pros and cons of the proposition that for the purpose of assuring the food supply of the country it is advantageous to levy a heavy export duty on food grains. (B. Com., 1932.)

The principal argument in favour of restricting exports of foodstuffs is that India produces foodstuffs that may on the whole suffice for the entire population, but the majority of the people are very poor and have not the means to buy sufficient food. Hence the main problems which face India are the chronic poverty of the masses and at times the high price of food grains.

Exports may take advantage of better prices abroad.—There is no reason to believe that because of exports of foodstuffs, India's masses have been left with scanty supply. The position is not exactly like that. The main problem is that the people do not possess the necessary purchasing capacity. Food grains are exported only to take advantage of better prices prevailing in the world market. In fact, in the Ottawa Trade Agreement, which has now been replaced by the Indo-British Trade Agreement, India secured preferences for her rice and wheat in the Empire market. Any prohibiting duty on the exports of these things is sure to curtail India's scope for taking advantage of the world market.

Export restriction a temporary measure—The case for restricting exports of food grains may be a case of emergency for a temporary period, but it cannot be a normal feature of India's tariff system. In years when the crops have failed in the country or famines have broken out, temporary measures may be taken to keep supplies within the country for a definite period. But as the Fiscal Commission points out, "prohibition does not always force stocks on to the market, as it may induce speculators to hold up large quantities of grain with a view eventually to export at a profit."

War-time necessity—In times of war also restriction of exports may be necessary. During the present war many articles have been brought under a system of export restriction, but the export of food grains was not initially restricted. The restriction came after the Bengal Famine.

Without Burma, India has lost much of her importance as a rice exporting country. Still she exports certain quantities of wheat and rice During 1939-40 India exported 2,62,000 tons of rice and 8 tons of wheat. These quantities are only a fraction of India's total production and as such the question of restricting exports abroad by *imposing a heavy export duty is not serious* or urgent.

Q. 83. What were the principal grounds on which the Legislative Assembly decided to terminate the Ottawa Trade Agreement in 1936? Give your own opinion on the question of termination or continuance of the Agreement (B. Com., 1937.)

The principal reasons for which Indian Legislative Assembly decided to abrogate the Ottawa Trade Agreement were :—

(1) The Agreement proved restrictive in practice. It tended to shut out imports from non-preferred countries and *pari passu* to diminish India's exports to those countries which form its largest group of customers.

(2) India's gain was problematical and inconsiderable, accentuating the unfavourable trade balance with the United Kingdom, while the benefit to the United Kingdom has been much more definite and considerable.

(3) It has given rise to or encouraged restrictive measures either in the form of quota systems or tariffs *on the part of those countries whose exports to India* have been affected by the preference granted by India to the United Kingdom.

(4) In consequence, the tendency has been to divert India's foreign trade away from the non-preferred

countries. Though during the first year of the working of the Agreement, India's total volume of exports to the U. K. advanced to a certain extent, the advance was not maintained during the next year (1934-35). On the other hand, India's exports have not advanced to the same extent as those of other countries. This has arisen out of the fact that the capacity of the U. K. to absorb India's exports is limited and the restrictions applying to India's trade with the U. K retard expansion of her trade with other countries.

(5) The Agreement reduced the margin of protection required for or enjoyed by India's industries and tended to act as a brake on their progress.

(6) On account of the Agreement, it was difficult, if not impossible, for India to negotiate mutually advantageous trade agreements or preferences with other countries, for the large number of commodities, included within the terms of the Ottawa Trade Agreement, afforded only a small scope for granting preference to countries outside the Empire.

(7) Economically India has been more or less isolated by the Ageeement from the world outside the Empire, a position which is economically unsound.

(8) In the Empire markets preference did not help India to maintain or recover ground against the U. K. or other parts of the Empire. In every case where India has had to compete with any Empire country, she invariably lost ground.

(9) India's percentage share in the total trade of the world, in export and import, tended to diminish while several other countries of the Empire reaped a

greater proportionate benefit from the improving world conditions.

(10) England offered only limited trading opportunities and, therefore, she should not restrict expansion of India's trade with other countries, especially as India needed large favourable trade balance to fulfil her foreign obligations, which cannot be met by means other than general expansion of India's export trade India's foreign obligations being the largest with the U. K., it is incumbent on the latter to increase materially her imports from India.

The decision of the Indian Legislative Assembly had good reasons behind it and from the economic standpoint the Agreement had many undesirable features about it

Both the Ottawa Agreement and the Indo-British Trade Agreement were denounced by the last Indian Legislative Assembly. During the war the ties that bind Indian trade to imperial channels have been further strengthened by the creation of the Empire dollar pool and the accumulation of sterling balances in London which are not allowed to be converted into dollars and other non-Empire currencies by the British Government. It is vitally important that India should be free to import capital goods from America for speeding up her programme of industrialisation. Britain is not in a position to supply us with capital goods adequately and cheaply. The delegation of Indian industrialists which recently toured Britain got only pious wishes from British industrialists. Britain's policy of regulating Empire trade in imperial interests is injurious to Indian interests. India favours the American policy of open door and mul-

tilateral trade. Britain is in effect pursuing Hitlerite Germany's policy of restrictions and bilateralism in trade.

Q. 84. Discuss the main features of the Indo-British Trade Agreement of 1939. (B. Com., 1940.)

Since April 1, 1939, the Indo-British Trade Agreement has come into effect. The chief features of the Agreement which replaces the Ottawa Trade Agreement are :

(i) It contains an agreement regarding the export of India's cotton to the U. K. and England's export of cotton piecegoods to India.

(ii) It introduces a modified scheme of imperial preferences.

As regards cotton, the Agreement provides for a sliding scale of duties fixed for cotton piecegoods of the United Kingdom origin which is linked up on the one hand with exports of Indian cotton to the United Kingdom and on the other with the imports of cotton piecegoods from the United Kingdom into India. The immediate concession to the U. K. was a reduction of duty on certain imports from that country. The new rates known as "basic rates" are 17½% *ad valorem* on printed goods, 15 per cent *ad valorem* or 2 annas 7½ pies per lb, whichever is higher, on grey goods and 15% *ad valorem* on all others.

"If, however, in any cotton piecegoods year the United Kingdom imports do not exceed 350 million yards, the duties charged after the end of that year and until the end of any cotton piecegoods year in which such imports exceed 425 million yards are to be reduced still further by 2½ per cent *ad valorem* with a proportionate reduc-

tion in the specific duty on grey piecegoods. On the *other hand, if in any* cotton piecegoods year, imports from the United Kingdom exceed 500 million yards, the rates of duty in the following cotton piecegoods year may be increased above the basic rates to such extent as may be deemed necessary for the purpose of *restricting* import of such goods during the year to the "maximum yardage figure" for the preceding cotton piecegoods year; the enhanced duties are, however, to be reduced to the basic rates after the end of any such year in which total imports from the United Kingdom have not exceeded 425 million yards.

"The concessions to India are embodied in the provisions relating to the calculation of the maximum yardage figure. This expression means, in relation to any cotton piecegoods year, a maximum of 500 million yards or for a year corresponding to a cotton year in which there is a deficiency in the United Kingdom purchases of Indian cotton, 500 million yards reduced by the appropriate figure. The word "dificiency" is defined as the amount which imports of Indian cotton into the United Kingdom fall short of the following quantities,

Year	*Bales.*
For the cotton ending 31st December, 1939	5,00,000
" " " " 31st December, 1940	5,50,000
" every subsequent cotton year	6,00,000

For the purpose of determining the appropriate rates to be charged on the United Kingdom cotton piecegoods under this item, total imports from the United Kingdom of such goods in any cotton piecegoods year corresponding to a cotton year in which there is a deficiency will

be deemed to have been increased by 25 million yards for every 50,000 bales (or less) of the deficiency: it is specifically provided, however. that the deficiency must not exceed 1,00,000 bales in the cotton year ending 31st December, 1939 and 1,50,000 bales in any subsequent cotton year, certain penalties are attached to a fall in imports of Indian cotton into the United Kingdom below the minimum quantities prescribed. The agreement provides that if imports fall below 400,000 bales in the cotton years ending 31st December, 1939 or 31st December, 1940. and 4,50,000 bales in any subsequent cotton year, the basic duties charged on imports of the United Kingdom cotton piecegoods may be increased. There is also a reward for an increase in the consumption of Indian cotton in the United Kingdom. Thus, if in any cotton year the United Kingdom offtake exceeds 7,50,000 bales, the duty charged on the United Kingdom printed cotton piecegoods will be reduced in the following cotton piecegoods year to a level not exceeding the duty on other United Kingdom cotton piecegoods." *(Review of the Trade of India, 1938-39.)*

The Scheme of Preferences—Under the Indo-British Trade Agreement the scope of the preferences granted to the United Kingdom has been considerably narrowed under the new Agreement by confining them to certain classes of goods which fall in the category of goods wholly or mainly manufactured. Goods in other categories, *e g.*, food, drink and tobacco and raw materials or semi-manufactures which were previously entitled to preference have now been omitted from the Schedules of Preferences. This is a gain from India's point of view

as competition between Indian producers and foreign manufacturers is probably more keen in the last two categories than in the category of manufactured goods. Under the new Agreement the majority of the items on which preference has been granted relates to specialised products which are not at present manufactured in India; as regards other items, *e.g.* woollen carpets and rugs, drugs and medicines etc. the imports from the United Kingdom consist of special varieties which are produced in India in negligible quantities. In the case of all items moreover, which have been retained in the preferential schedule, it is worth noting that during the period during which the old Agreement has been in operation although imports from the United Kingdom have increased, there has been no setback to our trade with other countries, the imports from which have also increased and the relative position of which in the Indian market has, in most cases, actually improved. Under the new Agreement certain preferential heads have been redefined so as to exclude a number of commodities which were formerly included in them. Thus, under the *preferential head of the chemicals, drugs* and medicines, several acids and chemical products have been removed from the scope of the preference; similarly, batteries, accumulators and electromedical apparatus and scientific, and surgical instruments have been excluded from the relative preferential heads. The exclusion of these items is designed in the interest of the Indian consumers. One new preference of 7½ per cent is granted on motor cycles. It may also be noted that the concessions granted to

the United Kingdom take the form of certain guaranteed margins of preference, it being left to the Government of India to raise or lower the rates of duty as the interests of revenue of domestic industries may require.

Preferences with regard to Colonies.—The principal features of the Agreement in relation to the Colonies are, firstly, that an undertaking is given that the Colonial Governments will, subject to certain exceptions, accord to India, in addition to the scheduled preferences, any preference which for the time being is accorded to any other part of the Empire; secondly, that India has given a reciprocal undertaking that, in addition to the scheduled preferences, any preference for the time being accorded to any other part of the Empire (excepting Burma) will be extended to a specified colony, protectorate, or mandated territory if His Majesty's Government so request; thirdly, that India is empowered to withdraw a preference from a colony or protectorate, which, not being debarred from granting a preference, accords no preference to India; and fourthly, that India has agreed to give most-favoured-nation treatment to goods imported from any part of the Colonial Empire.

Merits of the Agreement.—From an analysis of the Indo-British Trade Agrement, it may be stated that it meets many of the criticisms levelled against the Ottawa Trade Agrement. The list of preferences granted to the U. K. has been curtailed, for at present about 88% of the import trade of India is outside the scope of the preferential scheme. The old Agreement involved preferences on 106 tariff items; the number is now reduced to 20 of which 19 are old and one is new.

About the Agreement regarding the export of raw cotton and import of cotton piecegoods, there are differences of opinion as to its potentiality. The results are yet to be watched before it could be said whether India's export of cotton to U. K has substantially expanded or whether the preferences granted to the U. K. on the score of cotton piecegoods has been to the detriment of India's cotton textile industry. At least, during the present war, no detrimental effects are being felt, although exports of cotton to the U. K. engaged in war have not expanded at all.

Q: 85. Describe the main features of India's foreign trade and account for the normal excess of exports over imports, (Cal. B.A. 22, 31, 34. B. Com. 34 ; Agra 36. 38. 41 ; All. 33)

India's exports consist chiefly of raw materials, foodstuffs and unmanufactured articles. But her imports consist mainly of manufactured goods. Of the imports of manufactured goods, by far the largest portion consists of finished consumer goods. The import of machinery and capital goods plays an insignificant part in India's foreign trade. In recent years, export of manufactured goods from India *e.g.*, cotton piecegoods and sugar, has tended to increase. In the post war years the imports of machinery, chemicals and other raw materials are bound to increase owing to the accumulation of sterling balance and India's determination to transform herself into an industrial country.

Another leading feature of India's foreign trade is the predominant part that Britain plays in it. The shares of the United Kingdom in both the export and the import trades of India are still the largest. Britain's

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share in India's trade has tended to decrease throughout the present century. First Germany, then Japan and now America are formidable rivals of Britain. Britain's leading position in India's foreign trade has recently been propped up by the system of imperial preferences. The war has greatly helped Britain in tightening her economic hold on India.

India has always imported a large quantity of treasure *i.e.*, gold and silver from abroad. She is known as the sink of precious metals. After the Great Depression a vast quantity of gold left the shores of India and found its way to Britain and America. America may now claim the honour of being the sink of precious metals.

A fourth feature of our foreign trade is the normal excess of our merchandise exports over sharp charges. It rose to Rs. 113 crores in 1928-29 but fell to Rs. 3 crores in 1931-32. This favourable balance is partly an offset to our invisible imports such as the home charges, payments for the services of foreign slipping, banking and insurance houses and abroad to Indian students and tourists.

As the home charges have practically disappeared during the war and India has become a creditor country owing to the accumulation of sterling balances in London, the export surplus may disappear in the post-war years and give rise to an import surplus.

Q. 85. Describe the main features of the distribution of India's foreign trade (1) by commodities and (2) by principal countries. (Cal, B.A. 39, 40, 41, Dac. 40)

The distribution of India's foreign trade by commodities and countries has changed considerably in the

present century. Here we may give only a rough outline indicating the more persistent traits, and the principal changes that have occured, especially in recent years.

Articles entering into India's foreign trade are classified into three groups :—(1) Food, drink and tobacco , (2) raw materials and articles wholly or mainly unmanufactured.

In the First group the principal articles exported are tea, tobacco, grains and pulses, fruits and vegetables. Before 1914, India used to export a large amount of rice and wheat. India now exports small quantities of rice and wheat. She is a net importer of rice. In the second group the main articles of export are raw cotton, raw jute, oilseeds, oilcakes, hides and skins, raw wool, lac and matallic ores. In the third group the chief exports are hides and skins (dressed), metals such as iron and steel, cotton yarns and manufactures, jute manufactures and sugar.

Among the imports of the first group, the principal articles are rice, betel-nuts and spices. Of the second group the chief articles imported are oils, wood and timber, of the third group the principal articles imported are machinery and mill work, cotton yarn and manufactures, chemicals, hardware, dyes and colours, paper and pasteboard, motor vehicles, instruments and apparatus, electrical goods, woollen yarns and manufacture and artificial silk. Before 1932, sugar was a principal article of import from Java ; but since that year the import of sugar has dwindled to a negligible quantity. The relative position of the different countries in the foreign trade of India may be indicated in the following manner .—

At the close of the nineteenth century the United Kingdom took 29 per cent of our exports and sent 69 per cent of our imports. By 1913-14 both these percentages decreased by 4 to 5 per cent During this period trade with Germany increased and she occupied the second position, next to the U. K. Trade with Japan and the U.S.A. also increased.

During the war of 1914-18 Britain was seriously weakened in her position in the Indian market. Imports from Britain declined from 64 per cent. in 1913-14 to 45.5 per cent. in 1918-19. Exports to Britain, however, increased during this period from 23.5 per cent. to a little above 29 per cent. Due to the war conditions trade with Germany, France and Belgium completely disappeared. Japan and the U.S.A. greatly strengthened their positions in India's foreign trade during 1914-18. Japan came to occupy the second position in our foreign trade.

During the period between the two wars (1919 to 1939), Great Britain's position in the foreign trade of India gradually deteriorated. Her share of our imports came down from 45. 5 per cent. in 1918-19 to 35 5 per cent in 1931-32. Subsequently, thanks to the Ottawa Agreement (Imperial Preference), Britain gradually increased her share to more than 40 per cent. Exports to Britain also tended to decline during the inter-war period but the fall was arrested by the Ottawa Agreement. Under this Agreement, exports to Britain did not rise as much as imports from Britain. During this period, Japan's share of our import trade remained, with slight fluctuations at about 15 per cent, and her

share in our export trade was also about 15 per cent. She maintained her second position in our foreign trade Germany gradually regained her pre-1914 percentage in the import trade of India but her share in our exports after rising to about 10 per cent. in 1927-28 fell sharply after the rise of Hitler to power. The U.S.A. could not make much headway in our import trade and her share in our export trade came next to that of Japan. The U.S.A.'s share in our export and import trades in 1934-35 were 8.5 per cent. and 6.4 per cent respectively. During this period, trade with Java fell sharply owing to the virtual extinction of sugar imports from Java.

The directions to which our principal exports go and the countries from which our principal imports come, are discussed below with reference to the pre-1939 period :

Let us first consider the exports. Tea goes principally to the United Kingdom The export trade in tea is in the hands of Britain. Recently there has been a diversion of the tea trade direct to the U.S.A. and Canada Raw jute goes principally to the U.K. The other important buyers of raw jute are Japan and Germany. Jute manufactures are principally exported to the U.S A. Other important buyers are Argentina, Canada, Australia etc. China, Japan and the U.K. are the principal buyers of Indian raw cotton. Japan's importance as a market for Indian raw cotton has diminished as a result of the second world war. China will henceforth be our principal market for this commodity. Cotton piecegoods are principally exported to Burma, Kenya, Zanzibar, Straits Settlements and Ceylon. For oilseeds, the most important market is U.K. Next come

France, Belgium and Australia. France is, however, a leading buyer of Indian ground-nuts. 'Food grains go principally to Ceylon, Iran, Arabia and Iraq. For lac the chief buyer is the U.S.A. Next come U.K. and Germany. For raw hides and skins, the chief market is the U.S.A. Next comes the U.K. Germany was a very important buyer of raw hides and skins before 1914 but since then she greatly reduced her purchases.

Now let us come to the imports. Japan is the principal seller of cotton piece-goods to India. Next comes the U.K. Before 1914 Britain supplied three fourths of India's cloth requirements but after the last world war, Britain lost her hold on the Indian cloth market owing to the growth of the Indian cotton industry and the competition of Japan. Silk goods come chiefly from China, Japan and France. Artificial silk goods come predominantly from Japan. Hardware comes principally from the U.K., the U.S.A. and Japan. The U.K. and the U.S.A. are the sole suppliers of machinery to India. They are also the leading sellers of instruments and apparatus. Paper and pasteboard come principally from the U.S.A., Canada and the U.K. Motor vehicles come principally from Canada and the U.S.A., Drugs and Chemicals come chiefly from the U.S.A., U.K. and Germany. These three countries are also the chief suppliers of electrical goods. Mineral oils come from Burma, the U.S.A., Iraq and Iran. Burma is the chief seller of rice and timber to India. Wheat and provisions come chiefly from Australia.

Q. 87. Analyse the main provisions of the Indo-Burma Trade Agreement concluded in 1941.

After the separation of Burma in 1937 from India, the India and Burma (Trade Regulation) Order, 1937, regulated the mutual trade relations between India and and Burma. *According to the provisions of this order*, the Burmese Government served a notice in 1939 for the termination of this arrangement and for the conclusion of a full-fledged trade treaty. Accordingly a Burmese Delegation came to India and negotiations were started in *1940*. The Trade Agreement was concluded in March and came into effect early in April, 1941.

Provisions of the Agreement.—The main principles which have formed the basis of the Trade Agreement may be summarised as follows :—

(a) The two countries concede to each other a list of free commodities which will be admitted free of any duty.

(b) While India's commodities will enjoy a preference of 10% to 15% over the commodities of foreign countries in the Indian market, Burma also will be granted similar preferences in the Indian market.

(c) As regards exports of India's textile goods to Burma, a special term has been provided for. According to that Indian goods will have to pay an import duty of at lest 10% as against 17½% duty imposed on British and empire goods. This means that Indian textile goods are to enjoy a preference of 7½% in the Burmese market.

(d) As regards kerosine also a special arrangement has been agreed upon to the effect that Burmese kerosine will not enjoy the preference it *previously* enjoyed. The margin of preference is reduced to 9 pies as against 11 pies and besides Indian Government retains

the right to impose a surcharge equal to the margin of preference.

(e) As regards exports of timber, India has agreed to admit it free on the understanding that during the war the Burmese Government will not impose any export duty on it and after the war India Government will be free to impose any import duty on timber from Burma

The free list advantageous to India is not very comprehensive. It contains such commodities as canned fish, fruitjuice, fruits and vegetables, lead pencils, paper, printing and writing paper, coir-fibre, coir-yarn. mats and matting, glass and glassware, globes, chimneys for lamps and lanterns, glass bangles, certain electrical instruments, apparatus and appliances other than electrical. The free list favourable to Burma on the other hand is much longer. It contains many raw materials and also many manufactured goods as well. The important among them are dyeing and tanning substances, resins and lac, wood and timber, furniture and cabinets, tea chests. iron and steel, enamelled iron-ware, copper manufactures, copper aluminium, unwrought ingots, brass or bronze and similar other alloys.

It is not possible to assess the relative advantages of the two free lists, but it may be said that the free list of Indian commodities admissible to Burma measures only the grace which the Burmese Government would show to India. The clear fact is, however, that since most of the commodities of Indian export will now have to pay a duty, may be preferential duty, there will doubtless be experienced some initial difficulties in India's export trade with Burma. Such important articles as

potatoes, onions, coconuts, drugs and medicines, magnesium chloride, blankets, betelnuts, rugs and hosiery, spices, cigars, toilet soap, woollen carpets, boots and shoes etc., which are exported to Burma in large quantities, will have to pay a duty of 5% to 20%.

As regards rice India has agreed to admit it free at the present time, retaining, of course, the right to impose an import duty. But import duty must be preferential in favour of Burma. If India chooses to impose an import duty on rice, the duty will have to be heavier on rice from other sources During the wartime India may not require to limit the importation of cheap Burmese rice into India, but a day may come when this right will have to be exercised in order to safeguard India's internal rice trade from being depressed.

The informal assurance which the Burmese Government have given in regard to Indian sugar is very vague and is not likely to help India's sugar industry to export any amount of sugar to Burma. Burma is obviously trying to develop its own industry, but it would be gracious if India's industry, already well-developed, were given an opportunity of meeting some portion of Burma's requirements of sugar.

On the whole, although the trade agreement is based on the principle of reciprocity, it should be admitted that it has not been a very satisfactory deal from the standpoint of India. Along with Burma India may receive some increased customs revenue but the chronic advance balance of trade from which India has been suffering for more than Rs. 12 crores per year in mutual trade is not certainly a healthy sign and more so when

it continues unhindered There is another question which should be considered in this connection. The problem of the economic and political rights of Indians domiciled in Burma and their business and enterprise should have been satisfactorily solved along with the conclusion of the trade pact.

Q. 88. What were the effects of the second world war on India's foreign trade? (Cal. B.A. 1944)

The last world war profoundly affected India's foreign trade and internal economy. Both exports and imports declined but the latter to a greater extent than the former. The decline in foreign trade in terms of quantity was far greater than the decline in terms of value Two great shocks were administered to India's foreign trade: (1) The sweeping German successes in 1940 which completely cut off the European markets; and (2) The meteoric conquests of Japan in 1941-42 which sealed off Burma, Malay and the Netherlands East Indies and brought about a virtual blockade of the Indian Ocean and the Bay of Bengal. The latter blow was the more serious one and for a substantial period Calcutta ceased to function as a port for seaborne trade.

As a result of the loss of European and Far Eastern markets trade came more and more to be confined to the Empire markets, the U.S.A. and the Middle East. One very noticeable feature was the remarkable proportionate increase in trade with Empire countries other than the U K., e.g. Canada, South Africa, Australia and New Zealand and Egypt. Trade with Iran also

came to occupy a substantial percentage of our total trade. The U.S.A. came to occupy the second place in our foreign trade.

The volume and direction of our foreign trade were largely influenced by the general shortage of shipping space aggravated by the German U-Boat war-fare and by the strategy of the United Nations for waging a total and global war with the minimum wastage of shipping space. Both exports and imports were subjected to strict control.

The total mobilisation of India's resources for war purposes as well as strategic considerations affected the control. Exports of certain articles were completely prohibited and those of others were regulated by a system of licence. Special agencies like the U.K.C.C (United Kingdom Commercial Corporation) were set up for exporting Indian products to approved areas. Private exporters were not allowed to dispose of the foreign exchange accruing to them according to their own choice. All dollars obtained by sending exports to the U.S.A. were directed to the Empire Dollar pool.

Import trade was also controlled strictly. Before an import licence was allowed many considerations were taken into account such as (1) whether it was essential, (2) whether it had a domestic substitute (3) whether it would dissipate valuable foreign exchange, specially dollars, etc. A system of priorities was planned according to which import licences were allowed. The general licensing system was later replaced by the individual licensing system.

A special type of imports took place known as lend-

lease imports which were outside the jurisdiction of the Import Trade Control. No details regarding lend-lease imports and trading on Government account were published.

The general effect of all these restrictions was that India was starved of consumer goods as well as capital goods. The machines and machine tools that were imported were solely directed to war production. Exports of consumer goods such as rice and cloth, boots and shoes and manufactured articles took place on a large scale. Rice export was stopped only after the outbreak of the Bengal famine. The growth of Indian industries was very much handicapped by the control of foreign trade and India also suffered great privations.

In the immediate post-war period India is likely to import a large amount of consumer goods from the U.K. as a result of the Hydari Mission. The Indian industrialists who recently toured Britain and the U.S A. are not very optimistic about the possibility of importing a large amount of capital goods from Britain in the near future. The shackles which bind Indian trade to imperial channels have been very much strengthened by the war.

CHAPTER XIII

Banking and Credit

Q 89 Describe the main features of the Indian banking system. (B. A. 1925, 1927 1932, 1933, 1937.)

Q 90 Briefly describe the organization of the Indian money market Can you suggest any *improvement ? (B. Com., 1935.)*

The money market and banking system in India is composed of the following constituents. (1) The Reserve Bank of India; (2) The Imperial Bank of India; (3) The Exchange Banks: (4) The Indian Joint-Stock Banks; (5) The indigenous bankers, and (6) The co-operative societies and loan offices.

The Reserve Bank—The Reserve Bank has been brought into existence by the Reserve Bank of India Act, 1934. The Bank is a shareholders' bank. The original share capital is Rs 5 crores, divided into shares of Rs. 100 each fully paid up. It has its offices in Bombay, Calcutta, Madras, Rangoon and Delhi and in London too. The general superintendence and management of the Bank lies in a Central Board of Directors. The Central Board consists of 16 members chosen in the following manner: (i) The Governor and two Deputy Governors to be appointed by the Governor-General-in Council after considering the recommendations of the Central Board; (ii) 4 Directors nominated by the Governor-General-in-Council; (iii) One Government official to be nominated by the Governor-General in Council, and (iv) 8 Directors to be elected by the share-

holders. The Government official and one Deputy Governor shall not have the right to vote. Besides, each of the five offices will have a Local Board of 8 Directors, out of which 5 will be elected by the shareholders of the local register and 3 will be nominated by the Central Board. The Bank has the sole right of note issue, and it shall maintain 40 p. c. of its reserve in gold coin, gold bullion or in sterling securities. Every bank on the second schedule of the Reserve Bank Act must keep with the Reserve Bank a minimum balance of 5 p. c of its demand liabilities and 2 p. c of its time liabilities at the close of business on any day. The Bank also acts as banker to Central Government and the Provincial Governments. It keeps their cash balances and manages their public debts. The Bank is also authorized to conduct open market operations for a proper regulation of credit.

The Imperial Bank.—The Imperial Bank was ushered into existence by the amalgamation of the three Presidency Banks in 1921. Until the setting up of the Reserve Bank in 1935, the Imperial Bank used to act as the banker to the Government of India Since the inauguration of the Reserve Bank, it has been freed from some of the restrictions which were incidental to its acting as a Government banker and a sort of a central bank in a limited sense. It can now engage in all kinds of commercial banking and also deal in foreign exchanges. Even now it acts as agents of the Reserve Bank at all places where it has got branches and where there is no branch of the Reserve Bank. The affairs of the Imperial Bank are managed by a Central Board

and three Local Boards. While the Local Boards deal with the day-to-day business of the bank, the Central Board is mainly concerned with the determination of general policies.

The Exchange Banks—The Exchange Banks are the bigger foreign banks which operate in India and the East. These banks may be classified into two categories (i) those which do considerable business in India ; and (ii) those which are merely agencies of larger banks doing business all over Asia. Originally the business of these exchange banks was confined to the financing of the import and export trade of India. But now-a-days they also finance the internal trade of India and compete with joint stock banks in accepting deposits from the public. But their main business still remains the purchase and discount of export bills of exchange, thereby helping the transfer of funds to and from India.

The joint stock banks on modern lines are of recent origin in India. They do usual banking business of accepting deposits from the public, making loans and advances, discounting inland trade bills, etc. They seldom rediscount their bills and only a few of them do exchange business, one in sterling and dollar exchange and the other in sterling exchange alone. Those joint-stock banks which have a paid up capital and reserve amounting to Rs. 5 lakhs or above are called "scheduled banks" and have to maintain cash balances at statutory rates with the Reserve Bank. These banks have also to submit a weekly statement of their position to the Reserve Bank.. In times of stress the Reserve Bank,

if satisfied with the affairs and management of these banks, shall come to their aid. There are, no doubt, defects in the organisation and management of these banks, which call for urgent redress. A special legislation is necessary to place them on a sound and permanent footing.

The Indigenous Bankers.—The indigenous bankers, known by various names as *Mahajans*, *Shahukars*, *Shroffs*, *Nidhis*, *Chettis* in different parts of the country, even to this day play a very important part in the financial system of the country. They are found in every village in India and the business done by them must be enormous in the aggregate. Their business is generally a family concern. They have no share capital nor do they accept deposits. They generally do business with their own money They usually combine banking business with trading. They also make advances against securities, buy and sell remittances, discount hundis, and assist in the movement of crops and goods to and from the ports. They sometimes when extremely hard of cash, rediscount hundis with the joint-stock banks or the Imperial Bank. Their methods of business are somewhat antiquated and the interest they charge may be 2 to 3 p. c. higher than the Bank rate ; yet they still serve a very useful function in the monetary system of the country. They should be regarded as indispensable, when we remember that only 400 towns out of 2,000 towns in India can boast of a modern bank. Their methods of business, however, need re-organisation on modern lines. The Central Banking Enquiry Committee recommended a system of registration and licensing

of these bankers, and their linking with Reserve Bank. It will then be possible for the latter to mobilize fully the capital resources of the country and to institute unitary control over its credit organisation.

The Co-operative Societies.—The Co-operative banks in India are generally concerned with the provision of credit to the agriculturists in the moffussil. The movement, except in the Punjab, has been a failure, so to say. It has not been able to meet the needs of the rural population, nor the cultivators have been in the least entrusted over it, inspite of all sorts of official boasting. A few land Mortgage Banks have also been established here and there for supplying long-term credit needs of the agriculturists But the co-operative movement has not yet been able to touch the fringe of the problem, and the day is far off when they will be able to supplant the indigenous banker.

Not a co-ordinated system.—These constituents are loosely co-related to one another and they remain virtually independent in their respective spheres of business. That is, the Indian money market is divided into several segments with the result that there exists a great confusion and chaos in money rates prevailing within the country. Different money rates prevail in different areas and are independent of the Bank Rate. It is only in times of stringency the bazar rate for first class hundis follows the rate of joint stock banks or the Imperial Bank, which in its turn is dependent on the Bank rate of the Reserve Bank. Secondly, the absence of a well-organised bill market stands in the way of re-discounting facilities being made use of on a large scale. The

development of a well organised bill market would impart elasticity to our credit structure and also supply a corrective to seasonal monetary stringency. Lastly, banking facilities are also most inadequate in India. The result has been that the banking habit has not developed to any appreciable extent and they generally prefer hoarding to investing through modern credit institutions.

Q. 91. Briefly describe the clearing .house operation in India. (B. Com. 1924).

"A clearing house is a general organisation of the banks of a given place, having for its main purpose the offsetting of cross obligations in the form of cheques". When there are a number of banks operating in a given town, each bank will receive a number of cheques drawn on other banks, deposited by its clients for collection. The clearing house is an organisation where all these cheques are brought, and the mutual claims of different banks are offset, and a settlement is made by the payment of the difference. Thus it dispenses with the necessity of keeping a large volume of ready cash on the part of the banks.

The principal clearing houses in India are those of Calcutta, Bombay, Madras and Karachi. Other smaller towns have recently organised clearing houses of their own. Every member bank keeps a certain amount deposited with the Clearing House organisation, against which all marginal differences on any settlement day are drawn upon by the depositor bank. If on any day, the amount thus deposited falls short of the minimum amount, the bank will have to replenish the deficit with the Clearing

House at the earliest opportunity available. In some centres the Imperial Bank acts as the settling or bankers' bank. If any bank is not a member of the clearing house it can arrange to have the facilities of clearing through a member bank. The volume of business settled through clearing houses has assumed large proportions in recent years. The steady growth of clearing house returns points to the fact that banking habits are gaining ground among the people of India.

Q. 92. Discuss the relation of Imperial Bank of India to the State. (B. Com., 1927.)

(See answer to Question 94.)

Q. 93. Explain the position of the Exchange Banks in the import and export trade of India. How will they be affected by the creation of the Reserve Bank? (B. A., 1928, 1923.)

Q. 94. How are imports into India from European countries usually financed? Do you consider the present system of financing quite satisfactory? (B. Com., 1939.)

Q. 95. In financing the international trade of India, the exchange banks play an important part. Explain how. (B. Com., 1933, 1925.)

With the expansion of India's foreign trade the need for a special class of banks, dealing in foreign exchange was keenly felt. The Presidency Banks were prohibited from dealing in foreign exchange. The Indian joint-stock banks too did not engage in this kind of business due to their lack of necessary training and experience and want of access to the London money market. Hence arose the foreign exchange banks in India—(i) those whose principal business is done in India; and (ii) those which are merely agencies of large banks

doing business all over Asia and the Far East. Originally these banks confined themselves to the financing of the foreign trade of India, but now-a-days they finance also the internal trade of India to a considerable extent and compete with the Indian joint-stock banks in attracting deposits. But their main business in India is still the purchase and discount of import and export bills of exchange. The export bills are drawn by Indian exporters against credit opened with London banks by London importers These are mostly D. A. bills *(i.e.* documents on acceptance) maturing within 3 months. The D A. bills are discounted or rediscounted immediately after acceptance. A few of the export bills are D. P. bills (*i.e.* documents on payment) and these are held by London branches of the exchange banks till maturity. The purchase of export bills by the exchange banks means a transfer of their funds to London These banks replenished their funds in India by purchasing freely Council and Telegraphic Transfers in London so long as the system lasted. But after the inauguration of the Reserve Bank they effect transfer of funds by selling sterling in India to the Reserve Bank against their London balances. They also increase their resources in India by cashing import bills after maturity, selling drafts or T. Ts. to those who have to make remittances to London, or by importing gold or silver.

How import trade is financed.—The import trade is financed by 60 days' sight D. P. bills drawn on Indian importers and are payable in India. These bills, drawn generally in sterling, are first discounted in London

and then sent to the exchange banks in India for collection. The exchange banks thereafter present them to the importers for acceptance and payment. Importers can, however, obtain delivery of goods, before making *payment, by executing trust deeds in favour of the* exchange banks who accept the bills in London. Goods are held in trust by importers on behalf of the exchange banks until payment. But this facility is generally available to reputed importing European firms in India.

Though the exchange banks play a very useful part in financing India's foreign trade, the system cannot be regarded as satisfactory from the Indian point of view. The export trade is largely financed with British funds. The exchange banks, enjoying re-discounting facilities at London at low rates, are in position to handle a greater number of export bills than they can hold till maturity. But this re-discounting facility is denied to Indian joint-stock banks, which, therefore, finds it extremely difficult to compete with established exchange banks in securing foreign business. In the case of financing the import trade too, the British banks play a more active part The exchange banks only furnish information to the London banks as to the standing of the drawee (*i.e.* the Indian importer) and collect money on maturity. The import bills, being D. P. bills, are not re-discounted in India. In order to develop a discount bills market for import bills, it is, therefore, necessary that these should be D. A. bills and drawn in rupees.

Again, as the foreign trade is largely financed with foreign funds, raised in a far distant foreign centre, there

is an inherent danger to the stability of the Indian financial system. The exchange banks also do not keep, as pointed out by Keynes in 1913 sufficient cash reserves to their liabilities in India. There is also a belief, not wholly without reason, that the preponderance of the non-Indian elements in the foreign trade of India is due to the large facilities given by these exchange banks to their nationals doing business in India. As these banks are almost in the position of monopolists in this line of business, they use their influence to the prejudice of Indian merchants. It has also been alleged that these banks furnish very unsatisfactory bank references regarding Indian commercial houses to exporters in foreign countries. In order to remedy such an unsatisfactory state of affairs, it is necessary for the Government to make suitable arrangements with these exchange banks as a corrective to their anti-Indian policy. It is equally incumbent that Indian joint-stock banks should be encouraged, by official patronage if need be, to take to this line of business. Then and then alone can Indian importers and exporters obtain sympathetic and satisfactory bank services in respect of their foreign trade. This will also enable Indians to occupy larger shares in the foreign trade of India

Q. 96. Give a brief description of the indigenous system of Indian banking and the methods by which it finances internal trade. (B. Com., 1931.)

(For the first part of the question see the paragraph dealing with indigenous bankers on P. 212.)

The indigenous banker "finances the agriculturist, the petty artisan, and the small trader, assists in the movement of crops to consuming areas or to the ports, and distributes all kinds of goods, in the interior of the country." The most important method adopted by the indigenous bankers in financing these operations is the drawing of *hundis* and making advances against securities. The village *bania* very often makes advances to the cultivator on the tacit understanding that the crops, after being harvested, would be sold to him. During the harvest season the shroffs send their agents with specie by rail to the producing areas or collecting marts. In order to finance the movement of crops from rural marts to large trading centres or to the port towns, the smaller shroffs also draw *hundis* on large shroffs who usually discount these hundis generally with their own money. It is only when they are hard of cash that they rediscount the hundies with the joint-stock banks.

Q. 97. How do you account for the undeveloped state of industrial banking in India? What are the conditions under which the success of the Industrial banks can be ensured? Is it possible to create these conditions in India? (B. A. 1928.)

Q. 98. How can the credit system of India be efficiently organised for her industrial progress? What are the present difficulties in the way of such organisation? (B. Com., 1929.)

One of the main defects of the Indian banking system is the absence of industrial banks to provide long-term credits to industries, to help in the investment

of funds in industrial ventures by creating confidence among the investing public. Broadly speaking, organised industry requires two kinds of finance, fixed or block capital and floating capital or short-term accommodation for its day to day needs. The former kind of loans is necessary for the inception of a new industry, for purchasing land, erecting factory buildings and installing plant and machinery and for the re-organisation of old establishment concerns. The commercial banks which accept deposits for short periods or at call cannot lend for long terms. Therefore, a special type of institutions, known as industrial banks, is not only desirable but also necessary for a proper and rapid growth. and development of industries in India. All industrially advanced countries, except England, have found it necessary to have such banks for their industrial development The German system has long been regarded as the best example of banks fostering the development of industries. The banks in Germany play a very useful part in meeting the financial requirements of industries. They provide the greater part of the initial capital of the companies which is subsequently placed among the investing public, when the companies concerned have attained a position to inspire sufficient confidence among the latter In order to distribute the risk several banks join together in a "Syndicate" or "Konsortium", and agree to subscribe a proportional amount of the share capital. This is called *syndicate credit*. One of the members of the banking syndicate is chosen as the Director of the common transaction. The shares are not divided among the members but

remain in the custody of the Director until they are sold out to the public. This practice has resulted in the development of a feeling of intimate relationship and solidarity between the German banks and industry. "This feeling of solidarity and mutual confidence has found its practical expression in the representation of the banks on the boards of industrial and trading enterprises." The banker never gives advice on purely technical or industrial question but always on financial matters. As a rule the industrialist is responsible for the business and general management of the Company and the banker is merely the adviser on financial questions. In Japan also the growth of industries has been fostered by the Industrial Bank of Japan which could subscribe or underwrite new issues of industrial stocks. In England too in recent times the British joint-stock banks and even the Bank of England have associated themselves with industries in a manner they had done never before. Their attitude towards industry appears to have been considerably modified. They are no longer "unduly rigid, unsympathetic and detached." The creation of such institutions as the Securities Management Trust (1929), the Bankers' Industrial Development Company (1930), and the Credit for Industry, Ltd. (1934)—all point to the conclusion that even the conservative British banks have made considerable departure from their pre-war traditions.

In India too the necessity for specialised institutions for financing industries have been felt long since. In India the role of the capitalist has been undertaken by the managing agents who also combine, along with the

function of supplying industrial finance, the functions of the entrepreneur and the business manager. Their contribution to the industrial development of India has been invaluable. But because of some disadvantages and gross abuse of powers, the elimination of the system has been advocated. The Industrial Commission, reporting in 1918-19, recommended the establishment of an All-India Industrial Corporation and suggested that it should have the following features to be successful: (1) a large paid up share or debenture capital; (2) distribution of funds among a large number of concerns and variety of industries; and (3) careful scrutiny of the use of the funds lent and limitation of the amount of loans to any individual concern. The Central Banking Enquiry Committee also, while stressing the necessity of such specialised institutions, decided in favour of the establishment of Provincial Institutions. The various Provincial Banking Enquiry Committees also were of the same opinion. Under the new constitution the development of industries has been made a provincial subject, and it is likely that the autonomous Provincial Governments will favour the creation of Provincial Corporations. The Industrial Corporation should obtain its capitial by floatation of shares to the public, and the Government should take the portion which is not subscribed by the public. It should also supplement its funds by issuing debentures, if necessary, by offering guaranteed interest. The Government may also take debentures and hold them for some time till the market has been well-prepared to absorb them. The Industrial Corporation should provide industries

with long-term capital alone, *i.e.*, the duration of the loans should be for a period of 20 or 25 years.

The Corporation may also accept deposits for a fixed period, not less than two or three years, and the money obtained thus should not be lent out for a longer duration. The Government should also have representatives on the directorate of the corporation to see that its affairs are managed on sound lines. An All-India Corporation may also be created for financing basic industries which are of sufficient national importance as to require support and aid from the Central Government. The State Aid to Industries Act has been enacted in several provinces to cater to the financial requirements of small and cottage industries. On the recommendation of the U. P. Industries Re-organisation Committee, the Government of the United Provinces has set up an Industrial Credit Corporation to finance small industries. In Bengal also an Industrial Credit Syndicate was established a few years ago. But the Syndicate has not yet been able to make its effect felt on the industrial life of the Province. It is really sad that inspite of liberal Government aid, the Syndicate is said to be in a state of suspended animation now-a-days. The Government of Bengal has appointed an Industrial Survey Committee to enquire into the problems relating to the industrial development of the province. The Committee is now engaged in investigation. The financing of industries is one of the subjects within the purview of the enquiry of the Committee. Let us hope that the Committee will suggest such a

scheme of industrial finance as would be eminently successful in fostering industries within the Province.

Q. 99. Explain the difficulties of Indian industries in financing their enterprises. Do you advocate the establishment of Industrial Banks? Are any safeguards necessary for their management? (B. Com, 1932.)

(See answer to Question 97.)

Q. 100. Briefly describe the banking systems of India. Would you consider it necessary to establish an Industrial Bank in Bengal? Give reasons for your answer. (B. Com., 1938.)

For the first part see answer to Question 89-90 and for the second part see Answer to Question 98.

Q. 101. What are the functions of the Reserve Bank of India and what are its relations with other Banks? (B. Com., 1938.)

(For a description of the constitution of the Reserve Bank see answer to Question 89-90.)

The Bank has been devised on the model of the Bank of England into two separate departments—the Issue Department and the Banking Department. The functions of the Issue Department are to issue notes and to maintain their convertibility. The Bank has the sole right of note issue. The reserves it has to maintain against notes issued are based on the proportional reserve system and should be kept in the following manner :—40 p. c. in gold coin, gold bullion, or sterling securities, provided the amount of gold held shall not be less than Rs. 40 crores in value, and the remaining 60 p. c. in rupee coins, rupee securities issued by the

Government of India, and commercial papers which are eligible for purchase by the Bank. The amount of rupee securities held shall not exceed one-fourth of the total assets or Rs. 50 crores, whichever amount is greater. But this provision has been waived by an amendment of the Reserve Bank Act, during the present war when large amounts of India's sterling obligations were repatriated and their rupee counterparts issued.

Functions of the Banking Department—The main functions of the Banking Department are the following: (1) The Bank acts as the banker to the Government. All cash balances of the Central Government and Provincial Governments are to be kept free of interest with it The Bank shall also manage public debts, and carry on remittance business on behalf of these Governments It also makes ways and means for advances to these Governments repayable within 90 days. (2) The Bank may carry on ordinary banking business like accepting deposits and giving loans. But it is prohibited from giving interests on deposits. The provision has been made to prohibit the Bank from competing with private banks. The Bank is also authorised to purchase, sell and rediscount bills of exchange and promissory notes, drawn and payable in India, arising out of *bona fide* commercial transactions, bearing two or more good signatures, one of which shall be that of a scheduled bank, and maturing within 90 days of such purchase or rediscount It can also rediscount commercial bills of exchange or promissory notes, arising out of trading in securities of the Central or Provincial Governments or securities of approved Native States,

and maturing within 90 days. It can also rediscount agricultural bills, bearing the signature of either a scheduled bank or a provincial co-operative bank, and maturing within 9 months. The Bank has also been authorised to make loans and advances, repayable on demand or on the expiry of a fixed period not exceeding 90 days, against proper securities or gold and silver, to Native States, local authorities, scheduled banks and provincial co-operative banks. It shall also buy and sell sterling for immediate delivery to London at 1s. $6\frac{3}{16}$d. and 1s. $5\frac{49}{64}$d. respectively, provided the amount involved is not less than £10,000. (3) The Bank shall also act as a bankers' bank. Those commercial banks which have a paid-up capital and reserves of Rs. 5 lakhs and above shall be included in the second schedule of the Reserve Bank, and shall be called "scheduled banks". Every scheduled bank shall maintain with the Reserve Bank a minimum balance of 5 p. c. of its demand liabilities and 2 p. c. of its time liabilities at the close of business on any day. If the scheduled bank fails to comply with this provision, it shall have to pay a penal rate of interest on the amount by which the balance with the Bank falls short of the minimum. These banks shall also have to submit weekly returns showing their assets and liabilities both to the Govornor-General-in-Council and the Reserve Bank. In return the scheduled banks enjoy the privilege of rediscountig facilities from the Reserve Bank against approved securities. The banks can also take loans from the Reserve Bank against proper securities. (4) Lastly, the Reserve Bank may purchase from or sell to the scheduled banks

sterling in amounts not less than the equivalent of Re. 1 lakh. This provision has been made with a view to maintaining stability of exchange value of the rupee with sterling. The Bank is also authorised to engage in what is known as open-market operations, if it is considered necessary in the opinion of the interests of Indian trade, commerce, industry and agriculture.

Agricultural Credit Department.—The Bank has also a special Agricultural Department attached to it, the functions of which will be to study all questions of agricultural credit and co-ordinate the operations of the Bank in connection with agricultural credit. But so far, except publishing a few brochures on the nature and necessity of agricultural credit in India, the activities of this department have not been at all felt within the country. The Bank shall also make public from time to time the standard rate (*i.e.*, Bank rate) at which it is prepared to buy or re-discount bills of exchange or other eligible commercial paper. The Bank shall also prepare, and transmit to the Governor-General-in-Council for publication, a weekly return as well as a statement of its annual accounts within two months of the closing of the annual accounts.

The Bank cannot transact the following kinds of business. It cannot engage in trade or have a direct interest in any commercial or industrial undertaking. It cannot purchase, or grant loans on the security of its own shares of any other bank or of any Company. Neither can it advance on the security of immovable property.

The working of the Bank.—The working of the

Reserve Bank during these few years has largely fulfilled the hopes and aspirations which were roused by the setting up of the central bank. In the words of Sir George Schuster, India, like all other industrially advanced countries of the world, has thus been provided with a "mechanism for the control of currency credit and on the lines approved by modern experience." It has inaugurated for India a new era of financial stability and banking reform and re-orientation of the money market. It has also been successful in floating loans on behalf of Central and Provincial Governments at satisfactory terms and rates. It has also been successful in selling Treasury Bills on behalf of these Govenments. The stability of the rupee has also been maintained with considerable ability, even under the trying conditions of the persent war. The Bank Rate has also been maintained at or about the low level of 3 p. c. The Bank has also helped considerably in stimulating the development and progress of banking in India along sound lines, by its advice and guidance. But in one respect the Bank has not yet been able to achieve the amount of success that was expected of it in developing a proper and adequate bill market for India. This is shown by the very meagre amount of bills rediscounted by scheduled banks and provincial co-operative banks it holds in its portfolio. 'Neither can the Bank be said to have succeeded in its attempts at linking up the indigenous bankers with itself. Unless and until the Reserve Bank is able to develop a proper bill market in India and unify the two main parts of the Indian money market, it will hardly be able to exercise that amount of control

over the currency and credit of the country, which is necessary for the well-ordered economic prosperity of India. There is, however, room for improvement, as no human institution is perfect. But a great deal depends upon the manner in which the Bank works and the traditions and conventions it builds up in the process of its working.

Q. 101. "The Government of India is itself a great banker." Comment. (B. A., 1925.)

Before the setting up of the Reserve Bank of India, the Government of India was an important constituent of the Indian money market. The remittance operations of the Government in connection with the Home Charges produced far-reaching reactions in the money market. This function has now been taken over by the Reserve Bank. But even now the Government of India performs large banking functions. It does so in two ways : by transferring funds from one centre to another, and by accepting deposits from the public. Where there is no branch of the Imperial Bank, the Government carries on remittance business by accepting deposits at one centre and by paying the same at other centres on presentation of the Treasury Chalans. The Government charges a commission for this service. The Government attracts deposits from the public through Postal Savings Banks, and also pays interest to the depositors. Thus it is true to say that even now the Government of India is itself a great banker.

Q. 102. Indicate the lines on which the banking system of India should be reformed. Point out the chief defects of Indian joint stock

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banks. What are the main provisions of the proposed Banking companies Act recently introduced in the Indian Legislative Assembly?

The main defects of the Indian Banking system are the following:

1. *Absence of a good definition of a Bank and indiscriminate use of the word Bank:* The proposed Banking Companies Act has defined a bank as a firm receiving deposits *payable on demand.* All such companies must use the word, bank, as part of its name and every company named bank will be subject to banking law. Formerly, only companies whose principal business was banking were subject to banking clauses of the Indian companies Act.

2. *Insufficiency of Capital and tendency to open too many branches:* The Act provides that the subscribed capital must be at least 50 per cent. of the authorised capital and that the paid-up capital must be at least 50 per cent of the subscribed capital. No bank can start operations unless its paid-up capital and reserves amount to Rs. 1 lakh. For each branch opened in a place whose population is less than 1,00,000, the bank must have additional capital and reserve of Rs. 10,000. For each branch opened in a town whose population exceeds 1,00,000 the bank must have paid-up capital and reserve of Rs. 2 Lakhs. For a branch opened in Calcutta or Bombay, the paid-up capital and reserve must be Rs. 5 lakhs. The maximum paid-up capital and reserve prescribed is Rs. 20 lakhs.

3. *Combination of banking with trading:*—A banking

company is strictly prohibited from engaging in trading operations.

4. *Management of banks by managing agents:* This has been prohibited.

5. *Insufficient reserves and reserve fund:* The cash reserves of every banking company must be 5 per cent. of its demand liabilities and $1\frac{1}{2}$ per cent. of its time liabilities. Each bank must carry every year 20 per cent. of its profits to the reserve fund until the fund is equal to the paid-up capital.

6. *Insufficient liquidity Reserves:* The act provides that each bank must keep in cash, gold or approved securities 25 per cent. of its total deposit liabilities. The object of this provision is to prevent over-trading and safeguard the interests of the depositors.

7. *Advances to directors:* The act forbids a bank from making unsecured advances to its directors.

8. *Absence of inspection:* The act provides that the Reserve Bank *will have power to inspect the* accounts of all banking companies.

9. *Absence of control over foreign banks:* All banks registered in the Native States and countries other than British India or the U.K. are to be treated as foreign banks. They will be subject to licensing and will have to deposit the required amount of capital in cash or approved securities with the Reserve Bank.

CHAPTER XIV

Public Finance

Q. 103. Describe the sources of revenue of the Central Government and Provincial Governments in India. Can you suggest a more equitable distribution of revenue between these two Governments? (B. A., 1936, B. Com, 1933; 1939 All. 30; Mad. 35, 38; Nag. 37, 40; Agra. 30).

Q. 104. Give a brief account of the system of provincial finance in India. What are the principal sources of revenue placed at the disposal of the Government of Bengal under the new constitution? (B. Com., 1937.)

Q. 105. Describe the main sources of revenue of the Government of Bengal. Can you suggest any method by which the financial resources of Bengal may be augmented? (B. Com., 1939.)

Originally the whole of the revenues of India were treated as a single fund out of which doles were made out to the provinces according to their needs. The process of financial devolution was recognised as early as 1871. Since then steps have been taken in that direction from time to time. With the inauguration of the Mantford Reforms, a clear-cut separation of the heads of revenue between the Central Government and the provinces was tried. The famous Meston Settlement was an attempt in that direction. The present allocation of the different heads of revenue between the Central and Provincial Governments is governed by the Government of India Act, 1935. Under the existing arrangement the sources of revenue have been divided

into three categories:—wholly central heads, wholly provincial heads, and heads jointly shared by the centre and the provinces.

The sources of revenue allocated exclusively to the Central Government are the following:—(i) import duties; (ii) Corporation tax; (iii) contribution from receipts from federal commercial undertakings; (iv) profits from coinage and currency and from the Reserve Bank; (v) tributes from Native States. In addition to these sources, the Central Government enjoys the following sources at the present moment:—(1) Salt duty, (2) Excise duties except on drugs, alcohols, etc., and (3) Export duties. The Central Government may, however, hand over a part or whole of the proceeds from these sources to the province. Under the *Niemeyer Award* 62½% of the proceeds of the Jute Export duty are distributed among the jute-growing provinces on the basis of the average acreage under jute in the provinces. The proceeds of the personal income-tax (i.e., not of Corporation tax) are also jointly shared with the provinces under the Niemeyer Award. Under that Award, if the proceeds of the personal income-tax, together with the Railway contribution, exceed Rs. 13 crores in any year, 50 per cent of such excess is distributed among the provinces But by a recent Order-in-Council, to meet the exigencies of the war, this arrangement has been altered. Under the existing arrangement Railway contribution has been delinked, and the Central Government will retain Rs. 4½ crores out of the 50 per cent. of the provincial share, over and above its own share of 50 per cent The Central Government has also

been empowered to levy a surcharge on income-tax. By far the largest contribution to the central finances is made by customs and income-tax ; salt duty also yields a substantial revenue.

The following are the exclusively provincial heads of revenue :—(1) Land revenue ; (2) Excise ; (3) Registration fees ; (4) Forest ; (5) Agricultural income-tax ; (6) Taxes on professions, trades, callings and employments ; (7) Taxes on the sale of goods : (8) Taxes on luxuries, including taxes on entertainments ; and (9) Duties in respect of succession to agricultural land. Besides, the following taxes are levied and collected by the central government on behalf of the provinces :—(1) Stamp duties : (2) Terminal taxes on passengers and goods on Indian railways ; (3) Succession duty on property other than agricultural land.

As has been said above, the jute-growing provinces get 62½ per cent. of the proceeds of Jute Export Duty. The provinces also have a share in the proceeds of the personal income-tax. More-over, under the Niemeyer Award cash subventions in varying amounts are paid out of the central funds to Assam, Orissa, Sind, N. W. F. P., and the U. P. At present land revenue, excise duties, and stamps constitute the main props of provincial finance. More than two-thirds of the total provincial revenues is provided by these three sources alone.

Even under the Government of India Act there has been no clear-cut division between the spheres of central and provincial taxation. The position in this regard is still obscure. The Provincial Finance Ministers' Conference held at Delhi in January, 1938 also was of

opinion that there was overlapping and the right of the Provinces or the Centre to some taxes may be challenged in the Federal Court. Actually there have been a few cases of such a challenge. For example, the Central Government challenged the employment tax levied by the U. P. Government and also the petrol tax imposed by the Central Provinces. While the Federal Court upheld the contention of the Government of India in respect of the former, the right of the provinces to the petrol tax was, however, admitted.

As regards a more equitable distribution of the financial resources between the central and provincial governments it should be pointed out that there is no such thing as a theoretically perfect scheme. Even under the present allocation the same old charge of providing provincial governments with inelastic sources of revenue can be levelled. This criticism, though valid, has lost much of its pristine force. In the first place, it is essential that the Centre must have enough money for such all-India purposes, *e.g.*, maintenance of the credit of the country, national defence. Again, if its financial solvency is not assured, the Native States may not be willing to join the Federation. Secondly, provinces have been given power to tap new sources of revenue some of which may yield considerable revenue. Sales tax is a case in point. The Congress Government of Madras expected a total yield of about Rs. 4 crores from a 2 per cent tax on all sales. The Governments of Bengal and the Punjab have also imposed a sales tax on commodities excepting a number of specified articles. Similarly, taxes like those on petrol, motor vehicles,

profession, etc. would cumulatively yield sufficient revenue. Hence under the Niemeyer Award it cannot be said that the provinces has not the wherewithal to expand their resources.

Q. 106. Briefly trace the development of provincial finance in India since 1912. (B. Com., 1940).

From 1833 to 1871 all financial powers were in the hands of the Government of India. The whole of the revenues of India were paid into a single fund out of which lump-sum grants every year were made to the various provinces. The results were extremely unsatisfactory. That provincial Government which was the most extravagant and exerted the greatest pressure on the Central Government succeeded in securing the highest annual grant, there was no incentive towards economy. If any provincial Government tried to economise the expenditure of any department and saved some money in any year, its grant for that department was reduced in the next budget. Wise spending of money was impossible under these conditions. The central Government was in great financial difficulties.

In 1871 Lord Mayo started the system of financial decentralization under which certain departments were made over to the provinces which received all these departmental receipts plus annual fixed lump-sum grants from the Central Government.

The Provincial Governments were given the powers of additional local taxation to supplement their needs. At first services like jails, police, education and medical were transferred to provincial control. The actual ex-

penditure on these services in each province in 1870-71 was made the basis of the lump-sum grant. In 1877, other services like land revenue, general administration, law and justice and excise were transferred to the provinces. The revenues raised from law and justice, excise, stamps and licence (income) Tax were made over to the provinces entering into the settlement In 1882, Lord Ripon began the system of financial settlement on a quinquennial basis. The practice of making fixed permanent grants was definitely abandoned. A system of divided heads of revenue was introduced. Receipts from forests, excise, licence (now income-tax), stamps and registration were divided between the centre and the provinces The provinces also received a share of the land revenue.

Lord Meston was, therefore, appointed to devise a scheme of financial redistribution, so that "divided heads" might be abolished. The recommendations of this Committee which were ultimately adopted with slight modifications were known as the "Meston Settlement." Under the new settlement allocation of revenues was made in the following manner :—(1) Imperial Heads of Revenue—Opium, Salt, Customs, Income-Tax, Railways, Posts and Telegraphs, Military receipts ; (2) Provincial Heads of Revenue—Land Revenue (including irrigation), Stamps (judicial and commercial), Registration, Excise and Forests. The provinces were also given a small share in the income-tax. The changed allocation was expected to result in a deficit of about Rs. 9 8 crores to the Central Exchequer, which was sought to be made up by Provincial

Contribution. The system of Provincial Contribution was, however, abolished in 1928-29.

Its Defects—The Meston Settlement did not please anybody. Every province was more or less discontented. The main defects of the system may be stated thus :—(1) Sufficient attention was not paid to elasticity of the different heads of revenue. While the more expensive heads of revenue were given to the Central Government whose expenditure was comparatively stationary, the more inelastic and stagnant heads were given to the provinces, whose expenditures were bound to increase, as they were charged with nation-building departments like health, education, agriculture, etc. (2) The insistence of the authors of the settlement for a theoretical ideal of completely separate federal finance left the provinces with inadequate resources. But the history of federal finance in other countries shows that an absolutely "clean cut" between Central and Provincial heads of revenue is neither possible nor desirable. (3) While the system gave a bare minimum to more industrialised and commercial provinces from which the Central Government collected large amounts of income-tax and customs, it gave larger surplus to agricultural provinces. Moreover, while the major portion of the burden of provincial taxation fell on agricultural classes, naturally they resented large expenditure on development of industries which was a provincial subject. (4) The system of Provincial contribution also gave rise to bitter controversies among the different provinces.

(For the present allocation of resources, see answer to Questions 103-104).

Q. 107. Describe the relation between the Government of India and the Government of Bengal. Criticise the Meston Settlement. (B. Com. 1923, 1926).

(For the first portion see answer to Question 103-104. For the criticism of the Meston Settlement see answer to Question 106).

Q. 108. Describe the scope and importance of the Indian Income Tax. (B. A, 1938.)

Q. 109, To what extent are Indian provinces interested in Income-Tax (B, Com, 1938,)

Q. 110, Describe the main provision of the Income-tax Amendment Act, 1931, (B. Com, 1931.)

The history of income-tax in India is a very long and chequered one. A general income-tax was first imposed temporarily in India in 1860. Since then there have been numerous changes in the taxable minimum as well as in the rates of taxation. From 1886, income-tax has become a permanent feature of the Indian tax system. Under the present Income-tax Act of 1932, incomes of Rs. 2,000 and above only are taxed. Incomes below this level have been exempted from the scope of the Act. The income earned in the previous year is made the basis of assessment in the next financial year. The basic rates of income-tax rise progressively from 9 pies in the rupee on incomes between Rs. 2,000 and Rs 5,000/- per annum to a maximum of 2 as. and 6 pies in the rupee on incomes above Rs. 15,000/- per annum. The Act of 1939 introduced the slab system in place of the previously existing step system. Whatever be the size of the incomes, no tax is paid on the first slab of Rs. 1,500/-. On the next slab rising to Rs. 5,000/- the tax is 9 pies

in the rupee ; and so on. In the case of every company and registered firm the rate applicable is two annas and two pies in the rupee, whatever may be its total income. Besides, every individual, Hindu undivided family or unregistered firm has to pay super-tax rising from one anna in the rupee on the first 10,000/- rupees of the excess of the income over Rs. 25,000/-, to a maximum of seven annas in the rupee. But in the case of a company the basic rate of super-tax is one anna in the rupee. The super-tax on companies is called the corporation tax. The income-tax is assessed on the net income of the previous year after deducting costs on recognised principles. Life insurance premia, provided they do not exceed one-sixth of the total assessable income, have been exempted from payment of the tax. The agricultural incomes are also exempt from this tax. But, after the inauguration of Provincial Autonomy, the Congress Governments of Bihar and Assam have levied an income-tax on Agricultural incomes. Bengal has followed the example.

The income-tax is one of the main sources of revenue of the Central Government. The total yield from this tax before the last Great War was very small and was about Rs 3 crores. As a result of changes made since, the yield has considerably increased. In 1944-45 the amount expected from this source, excluding corporation Tax, was estimated at Rs. 100·89/- crores. The highly elastic nature of the Tax has been a source of considerable strength to the central finances. Up to 1936 the provinces had almost no share in the proceeds of this Tax. By the Government of India Act, 1935, the pro-

vinces have been given a share in it. Under the Niemeyer Award as amended subsequently, Central Government retains 50 per cent. of the distributable surplus of the income-tax plus Rs. $4\frac{1}{4}$ crores The rest goes to the provinces in certain fixed proportions.

Effects of the war (1939-45) on Income-tax. Central surcharges on income-tax and super-tax were levied during the war to meet the increasing cost of defence expenditure. The rates of these surcharges were gradually increased as the war wore on. The surcharges as under the budget of 1945-46 are as follows; on the first slab of Rs. 1500 nil; on the second slab between Rs. 1500 and Rs. 5000, 6 pies; on the next slab from Rs. 5000 to Rs 10 000, 10 pies; on the next slab from Rs 10,000 to Rs. 15,000, 18 pies; on the balance of total income, 27 pies. The surcharges were in addition to the basic rates Surcharges on super-tax range from 12 pies in the rupee to 42 pies in the rupee. The corporation tax was raised from one anna to three annas in the rupee with a rebate of one anna for undistributed profits. An excess profits Tax was imposed on war profits exceeding Rs. 36,000 at the rate of 66 per cent. An additional sum amounting to 19/64 of the E. P. T. was to be compulsorily deposited as an anti-inflationary measure. A pay-as-you earn scheme has been introduced under which the tax-payer has the option to pay income-tax on the current year's income. In 1945-46, provision has been made for granting relief to earned incomes by exempting $\frac{1}{10}$th of it from tax. Special allowance have been granted to businesses for encouraging scientific research and building depreciation reserves.

Q, 111 What is the relation of railway finance to general finance in India ? (B, Com, 1938)

Upto 1924 railway finance was mixed up with the central revenues of India. All railway receipts were paid into the Government treasury and all disbursement *on revenue account* were *made out of the Governments* treasury. The Acworth committee appointed in 1920 to enquire into railway finance and management urged the separation of railway finance from the General finance on the following grounds : (1) In the first place, it would remove the element of uncertainty in the general budgetary position of the Government due to the inclusion therein of railway profits. Railway profits are likely to vary with the character of the season and trade conditions, with the result that estimates sometimes were out by several crores of rupees.

(2) Secondly, the finance Department which is always after effecting economy could not adopt a bold railway programme.

(3) Thirdly, the system of "lapse" which assumed that the railways went out of business on 31st March of every year encouraged extravagance and failed to secure a steady and economic working of the railways.

(4) Lastly, in the absence of any proper accounting method, no adequate provision was made for depreciation of the capital and rolling stock. In a word, the Acworth Committee recommended that the railways should be run as business undertakings on a commercial basis.

The Government accordingly brought forth a resolution in the Legislative Assembly, which was finally adopted in 1934. Under the new arrangement railway finaces

were separated from general finances. It was also arranged that railways were to make a definite ascertainable annual contribution. The basis of the contribution is as follows :— 1 per cent. of the capital at charge of commercial lines, excluding the capital contributed by companies and Indian States, at the end of each penultimate year, plus $\frac{1}{5}$ of the surplus profits in that year, interest on capital at charge of strategic lines and the loss in working being deducted. The whole contribution would be the first charge on the net railway receipts. The Railway Reserve Fund has been created, which should be used to secure the payment of annual contribution, to provide, if necessary, for arrears of depreciation and for writing down capital, and generally to strengthen the financial position of the railways. It has been also provided that if, after the payment of the contribution so fixed, the amount available for transfer to the Reserve Fund should exceed Rs. 3 crores, $\frac{1}{3}$ of the excess should be paid to the general revenues. It was expected that by this arrangement the general tax-payer would obtain some relief from taxation and be assured of a regular contribution from the railways. The first separate railway budget under this arrangement was presented to the Central Assembly in 1925. Since then the working of the Separation Convention upto 1930-31 was fairly satisfactory. But with the onset of the depression in 1930, railway earnings fell and during the years 1931-36 to 1936-37 railways not only failed to make their stipulated contribution but also depleted their reserves considerably. Since 1937-38 the railways have turned the corner and their financial working has been quite satisfactory.

During the War of 1939-45, the Railways made huge profits. All their arrears in contribution and loans from the Depreciation Fund were fully repaid. The Separation Convention has been suspended. The contribution of the Railways to the general reserves is now decided annually by an agreement between the Railway management and the Finance member. This is a temporary, makeshift arrangement.

Q. 112. What are "Home Charges?" Briefly describe the method by which payments are made by this country to England. (B. A., 1909, 1910, 1912, 1914, 1920, 1937; B. Com., 1923, 1927, 1940.)

Q. 113. Analyse "Home Charges" and describe the effects of a high sterling value of the Rupee on Home Charges. How are Home Charges redeemed? (B. Com., 1928.)

The remittance which India has to send every year to England on account of the payments to be made in connection with debt services, purchase of stores, Military and Marine, India office, furlough pensions, etc. are called the Home Charges. Or, in other words, the total annual expenditure on Government account abroad, most of which is incurred in the U. K., is known by the more generic term, Home Charges. These payments include :—(1) interest and annuities on account of money borrowed in England for the construction of Indian railways and large irrigation works; (2) payments in connection with the civil administration in India; (3) payments for defence services rendered by British forces and the Royal Navy; (4) payments on account of stores purchased on behalf of India in England; (5)

pensions and superannuation allowances of retired British officials; (6) expenses of the India office; (7) works relating to currency and mint; and (8) miscellaneous. The total amount paid on account of the Home Charges was £28·9 million in 1933-34. India's excess of exports over imports largely helps her in paying these Home Charges.

Home Charges—whether a drain?—Great controversy raged in the past over the question whether the Home Charges were to be regarded as a "drain" of India's wealth or not. Often they have been called a "drain". Now, what is the "drain"? Sir Theodore Morrison defines it as "that portion of India's debits for which in any given year she receives no material equivalent in goods or money." Judged by this criterion it would not be quite correct to call the Home Charges as a "drain", because in most cases India gets a return for the payments she has to make. For example, payments on account of debts and annuities can never be regarded as a "drain", for without the help of foreign loans it would not have been posible for India to develop her railways and irrigation works Again, payments on account of stores purchased in the U.K. are a purely commercial transaction and India gets material equivalents in this case. These two heads of expenditure alone account for about two-third of the total Home Charges. So also payments which are made in respect of civil and military services cannot be wholly regarded as a "drain", because India gets some amount of service in return. But the real point in the drain controversy is not whether India gets any return for the money she

pays, but whether the payments can be said to be fully compensated by economic equivalents. There is a feeling generally prevalent in the country, not without reason, that the expenditures on some of the heads are higher than what they might have been, if India's interest had always been before the eyes of the Government. With efficient administration and economy in management and with increasing Indianisation, a great saving in these payments could have been easily effected. The drain controversy has, however, lost much of its original force and become somewhat diffused as a criticism of British administration in India. The "drain" is not a wholly exclusive drain out of India. There is certainly room for improvements in expenditure in many directions, which would effect considerable savings.

The payment of "Home Charges" exerts a powerful influence on the Central Bndget. It is linked up with the question of the exchange value of the rupee. The Home Charges have to be paid in sterling and their amount can be determined by the Government beforehand at the outset of the year when the Budget is framed. But the amount of rupees that the Government would require in payment of these sterlings depends on the ratio of exchange between the rupee and sterling. Unless this ratio is fixed, an element of uncertainty creeps into the budget. If at any moment the sterling value of the rupee is high, then the Government would require a smaller number of rupees to pay a given amount of sterling. Thus there is a saving in the Budget of the Central Government. On the other hand, contrary things happen, if the rate of exchange goes down. The Govern-

ment will then require a greater number of rupees to pay for the same amount of sterling, a position which might embarrass the Government for not providing for the extra money needed. Thus the payment of Home Charges imports an element of uncertainty in the budgetary position of the Government of India, if the rupee-sterling ratio is not fixed.

How these payments are made :—Originally the sale of Council Drafts by the Secretary of State was the machinery employed for drawing funds from India to meet the Home Charges in England. But after the setting up of the Reserve Bank the system was discontinued. Now the Reserve Bank handles the transactions and the Home Charges are transferred from India through the Reserve Bank by the purchase of sterling. Normally India enjoys a favourable balance of trade. That is, on merchandise account, India gets more sterling for her exports than what she needs to pay for her imports. Every week the Reserve Bank offers to purchase sterling at fixed rate (*i. e.*, 1s. 6d.) and gives rupees in exchange to sellers of sterling in India. As normally India has a positive surplus of sterling claims, the Reserve Bank finds no difficulty in getting adequate amount of sterling to meet the Home Charges. If adequate amount of sterling is not available at the market, the Reserve Bank pays the Secretary of State out of its sterling reserves. In the latter case the Reserve Bank has to effect a contraction of currency in India. Thus we see that usually the favourable trade balance of India facilitates the transfer of funds from India to meet the Home Charges.

The last war has enormously affected our Home

Charges. The sterling debt of India has almost completely been repaid. Arrangements have been made for the payment of the sterling charges, on account of pensions and provident funds out of a special sterling fund instituted in London. Thus the burden of home charges has been reduced to insignificant proportions. All this has made it possible for India to utilise her annual favourable balance of trade in buying a larger amount of machinery and consumer goods from abroad.

Q. 114. Give a brief account of excise duties at present levied in India. (B. Com., 1940)

Q. 115. Define excise duty. Discuss the effect of excise duty on Indian cotton manufactures. What is the object of its imposition and what are its limitations? (B. Com., 1939).

Q. 116. What are the sugar excise duties? Examine the effects of these duties on the production of sugar in India. (B. Com, 1939).

Excise duties are "taxes levied on articles of home production, usually to remove the protective effects of customs duties imposed-on the same ariticles, foreign produced, for revenue purposes, or to discourage consumption." *(Palgrave)*. These duties are levied mostly for revenue purposes and are imposed on articles produced at home with the object of balancing, or as it is called, "countervailing," the taxes imposed on foreign imports for revenue purposes. They are also imposed on the manufacture of intoxicants, narcotic drugs, etc. within the country with the object of discouraging consumption. The duty may be either *specific* or *ad valorem*.

Cotton—During the closing decades of the last century the Indian cotton textile industry attained rapid development, which alarmed the Lancashire cotton interests. At the end of 1894, owing to the financial stringency caused by a falling rupee, a general import duty of 5 per cent. was imposed on all imports. Cotton fabrics and yarn also were subject to this duty, but to propitiate Lancashire an excise duty of 5 per cent. was levied on yarns of 20 counts and above produced in Indian mills. This failed to satisfy British cotton manufacturers, and at their instance the import duty on all cotton piecegoods was lowered to 3½ p c. in 1896. An excise duty at the same rate was also imposed on all Indian mill-made cloth. Cotton yarn, whether imported or home-made, was exempted from any duty. This excise duty was imposed to benefit Manchester by placing a handicap on the Indian cotton textile industry. The excise duty on cotton piecegoods has always been most bitterly resented in India, for it injured India without conferring any benefit on Lancashire. It was pointed out that as Lancashire specialised in finer counts, while Indian mills generally manufactured coarser varieties, the latter did not come within the range of any competition with Lancashire. Moreover, the lowering of the import duty from 5 p. c. to 3½ p. c. benefitted the wealthier classes of consumers in India, while the excise duty hit hard the poorer classes. Inspite of strong opposition the duty remained. The Fiscal Commission too recommended its abolition. In November 1925 the Viceroy suspended the duty by an Ordinance. The duty was finally abolished in 1926.

Sugar.—By the Sugar Industry Protection Act of 1932 an import duty of Rs. 7-4 as. per cwt. was imposed on all imported sugar. The protection was to continue for a period of 15 years, subject to the condition that at the end of every 5 years the measure of protection needed by the industry would be reviewed by the Government. The industry made phenomenal progress under the aegis of protection, and the imports of white sugar from the Dutch East Indies fell to insignificant proportion. By the Sugar (Excise Duty) Act, 1934, the Government of India imposed an excise duty of Re. 1-15 as. per cwt. (roughly equivalent to about 15 as. 4 p per md.) on factory sugar and 10 as. per cwt. on Khandasari sugar inspite of unanimous and strong protests from all quarters. The new excise duty was sought to be justified by the Government on the ground that the duty was necessary to fill in the gap in revenue caused by the fall in imports of sugar to greatly reduced levels. In February, 1937, the excise duty was raised to Rs. 2 per cwt. on factory sugar and to Re. 1 per cwt. on Khandasari sugar. This time also the Government put forward the plea of falling revenue for increasing the rate of the excise duty. The rate on Khandasari sugar was, however, reduced to 8 as. per cwt in 1939. The present rate of excise duty on factory sugar stands at Rs. 3 per cwt. The excise duty met with strong opposition from Indian industrialists. They pointed out that if protection to the industry was to be successful, the drying up of the revenue was a foregone conclusion and the Government should have realised this beforehand. It appeared that the fault of the industrialists lay in the fact that

they developed the industry far more rapidly than was imagined by the Government. Far from being complimented on this remarkable achievement of the industry, the industrialists were penalised, as it were, by the increase in the excise duty. The burden of the additional excise duty imposed in 1937 was really passed on to the cultivator to a vary large extent, particularly, as there was no fixed minimum price of cane. In order to counteract this tendency, the minimum price of cane was fixed on a sliding scale in Bihar and the U. P. in 1939. The Tariff Board, appointed to ascertain if protection to the sugar industry during the period from 31st March 1939 up to 31st March 1946 should be continued to the same extent or to a greater or lesser extent, also recommended the lowering of the excise duty and observed that "the ordinary consumer has, so far, no cause of complaint against the policy of protection and indeed has every reason to be satisfied." It may appear that the interest of consumer has been sacrificed by such a high import duty on sugar. But discriminating protection has even enabled the consumer to get his sugar much cheaper, if the prices of Java sugar in pre-protection days are considered. Therefore, in view of great importance of the industry in the national economy of the country, it is reasonable that excise duty should be lowered, at least during the initial period of 15 years for which the policy of protection has been adopted.

Matches—The Matches (Excise Duty) Act, 1934, imposed on matches made in India and sold in boxes, an excise duty of either Re. 1, Re. 1-8 or Rs. 2 per gross

of boxes, according to the number of sticks contained in a match box. On all other matches an excise duty at the rate of 4 as. per 1,440 match sticks was imposed. Import duties on foreign matches were simultaneously increased so as to leave the measure of protection granted to the industry unimpaired. Sir George Schuster, the then Finance Member, justified the excise duty on the ground that the Central Government had to recoup their losses as a result of the sharing on a fifty-fifty basis the proceeds of the jute export duty with the jute-growing provinces. It was also provided that the Indian States would also get a share of the proceeds of the match excise duty on the basis of consumption of matches in those territories.

Besides sugar and matches, excise duties were also levied in 1939 on salt, motor spirit, silver, mechanical lighters. steel ingots and coal and coke. During the war new excise duties were levied on tyres and tubes, tobacco, vegetable ghee (vanaspati), tea, coffee and betel-nuts. The rates of the old excise duties on matches, sugar, motor spirit and Kerosene oil were raised. The duty on matches was increased 100% and the duties on sugar and motor spirit were raised 50%. The total revenue from Central Excise which was Rs. 8·66 crores in 1938-39 rose to Rs. 46·90 crores (estimated) in 1945-46. Central Excises have thus come to occupy a very important place in the financial system of the country.

Q. 117. Examine the scope of export duties in India for purposes of (a) revenue, and (b) protection. (B. Com., 1939.)

Until 1860 export duties were levied at the rate of

3 per cent. *ad valorem* practically on all exports from India. Gradually these duties were abolished and by 1880 there remained only the duty on rice. In 1903 a small duty was levied at the request of the Indian Tea Industry on the export of tea. In 1916-17 export duties were levied on tea and jute. In the case of tea the duty was fixed at Re. 1-8 per 100lb, but it was subsequently abolished in 1927-28. In the case of raw jute the duty was fixed at Rs. 2-4 per bale of 400 lbs. each. Manufactured jute goods were charged at different rates. The rates changed from time to time. In 1919 a 15 per cent. duty was levied on the export of raw hides and skins as a measure of protection to the India tanning industry. The duty, however, failed to achieve the desired objective, and the Fiscal Commission condemned the duty as wrong in principle, and expressed the view that if protection of the tanning industry was desired, an import duty, instead of an export duty, ought to have been the best means for doing it. The duty was reduced to 5 per cent. in 1923, its retention being justified on grounds of revenue. Owing to the fall in their exports, the duty on raw hides was abolished in 1934 and on raw skins in 1935.

All the export duties so far levied in India, except the duty on raw hides and skins, were imposed on revenue considerations only. Even the export duty on raw hides and skins, which was levied as a protectionist measure, did not succeed in fostering a healthy development of the tanning industry. An export duty, to be a device for successful protection, presupposes that the country imposing the duty has a virtual monopoly of the

raw materials on which the duty is imposed, a condition which few Indian products satisfy. It is, therefore, hardly expedient to try such a method as a measure of protection.

Q. 118. Give some account of India's Public Debts. (B. A, 1912, 1925; B. Com., 1937.)

Q. 119. Classify the Public Debts of India. How do you think our debt position is economically sound? (B. A, 1929, 1934, B. Com., 1939.)

Q. 120. Trace the history of public debt in India during the last World War. (B. Com., 1944.)

Broadly speaking, the public debts of India may be classified into (i) unfounded or floating debts, (ii) funded debts, and (iii) terminable annuities. The best illustration of floating debts, *i.e.*, debts which are raised for a comparatively short period, say 6 months or one year, is provided by the Treasury Bills. Treasury Bills are either held by the public or the Reserve Bank of India. Post Office Savings Bank Cash Certificates are also another form of floating debts of the Government of India. On the other hand, funded debts are those debts for which the Government never promise to repay the capital at any time. The payment of interest at stipulated rates and at regular intervals is only promised. The Government of India's 3½ p. c. loans belong to this category of debts. Most of the war loans of the Government of India can also be regarded as funded debts. The *terminable annuities* are those payments which have to the made by the Government of India to meet

the statutory obligation of railway annuities issued in repayment of both *principal and interest on loans* incurred in purchasing railways

Public debts may again be classified into two main divisions :—reproductive debts and deadweight debts, *i e.* productive and unproductive debts. *Productive debts* are those debts which are fully covered by the possession of assets of equal value and which yield an annual return, while *unproductive debts,* as the name implies, yield no income. Most of the productive debts *of the Government of India were utilised for the* construction of railways and irrigation works. The interests on productive debts are paid out of the income of the assets for which debts were incurred, but the interests on unproductive debts are paid out of the general revenues of the Government of India.

Public debts of India can again be sub-divided into two *kinds, viz. sterling debts and rupee debts.* Sterling debts are those debts for which payments, both on capital and on interest accounts, have to be paid in sterling, while rupee debts are to be paid in rupees. The total amount of sterling loans stood, in 1939, at the figure of Rs. 465 crores. Judged by another standard, Indian public debts can again be classified into two heads, external and internal, in the sense whether these loans are held by non-nationals or by Indians. It must not, however, be supposed that all sterling loans are external loans, because a portion of them, though a very small portion, is held by Indians. Similarly, all rupee loans should not be treated as internal loans, though the bulk of the rupee loans are held in India, but a certain

portion is held by British investors who live in England and who receive interest in that country.

One of the satisfactory features of our public debt is that the major portion of it is productive. The amount of ordinary debt was very small up to the pre-war days of 1914, and it increased rapidly from Rs. 3·1 crores on 31st March, 1916, to Rs. 257·7 crores on 31st March, 1924. This increase was largely due to India's war contribution of £100 millions, the expenses on New Delhi and the successive deficits in the central budget during the post-war period. On the 31st March, 1936, the total debts of India, including the debts held in England, stood at Rs. 1,202 crores, out of which about Rs. 990 crores were covered by interest-yielding assets, while the amount of 'ordinary debt' was nearly Rs. 198 crores. Thus considered, *the debt position of India before 1939, might be regarded as quite sound.* But, at the same time, it should not be forgotten that by far the greater portion of India's public debt was held by Britishers, which remained its most unsatisfactory feature. All payments on account of the debts held by foreigners went out of the country and thus added to our burden. Moreover, in times of depression and abnormal exchange fluctuations, payments of interests on sterling loans introduced an element of uncertainty in the budget of the Government of India and the Finance Member did not know beforehand what exact amount of Rupees he had to provide for in order to meet these foreign obligations. Besides, the existence of a large amount of foreign loans created all kinds of political troubles. It was therefore, very much desirable that the policy should be to reduce the volume of the external

debt as far as possible. In December, 1924 on the initiative of Sir *Basil Blackett*, a debt redemption scheme was accepted by the Indian Legislative Assembly. But the scheme could not be effected to any great extent and was suspended in 1933-34. Since 1934-35 a provision of Rs. 3 crores has been made annually from revenue for reduction of debt. It is however, a matter of gratification that the Government of India successfully brought into completion, during the war, a policy of steadily liquidating India's sterling loans. This policy was inaugurated even before the war but since the war, the process of repatriation was greatly accelerated, because of the fact that large sterling balances accumulated in the portfolio of the Reserve Bank as a result of the continued improvements in the Country's balance of trade and the large payment received in the United Kingdom on account of recoverable war expenditure and the cost of war supplies made to His Majesty's Government. The scheme of repatriation of sterling debt undertaken during the war have almost completely wiped off India's sterling debt, all but an insignificant portion of this debt has disappeared. Not only has India paid off her external debt but owing to the accumulation of sterling balances in London, she has emerged out of the war as a creditor country.

Public Debt in India during the War (1939-45) :

The most important features of public debt during the war were the virtual extinction of the sterling debt and a large increase in the rupee debt. By a gradual process of repatriation India's sterling debt came down from Rs. 469 crores in March 1939 to Rs. 38 crores only

in March 1944. The rupee debt on the other hand increased from Rs 709 crores in March 1939 to Rs. 1,335 crores in March 1944.

Taking short term and longterm loans together, the total Defence loans raised in India during the war reached the total of Rs. 833 crores by the end of January, 1945

Various types of loans were floated such as the many Defence Loans, Victory Loans, Defence savings certificates, premium Bond issue, interest-free loans etc. In the first period of the war the loans met with poor response and the Government relied largely on Treasury Bills and Ways and Meanes advances for finance. But as the the tide of war turned favourably and the Control of capital issues, was tightened, savings poured more freely into the public loans. Thus the Government succeeded to a larger extent in the mopping up the surplus purchasing power and checking the inflationary trends in prices. Political discontent in India was responsible to some extent for the comparative failure of the public loans. The Government's failure to enforce price control and check profiteering and black-marketing were also contributory factors. Had the Government succeeded in controlling prices 'and preventing illicit spending of money, the war might have been financed more largely by savings and the need of financing the war by inflation might have been mitigated.

Q. 121. Distinguish between direct and indirect taxes. Discuss their respective merits and give an account of the direct taxes levied in India. (B. A, 1927, 1932, 1934.)

A tax is said to be direct, the impact and incidence

of which are on the same person. The burden of the tāx in this case is borne by the person on whom the tax is levied by the State. *A tax is said to be indirect*, the impact and incidence of which are on different persons. In this case the incidence is most likely to be shifted on to other persons. For example, an income-tax in a direct tax in the sense that tax is ultimately borne by the person on whom it is imposed ; while customs duties are indirect taxes in as much as taxes are first paid by businessmen who expect to recoup them from the ultimate consumers. But the distinction is not so clear-cut as it seems on the face of it. Sometimes the distinction becomes hazy. Yet the retention of it serve some useful purpose.

The advantages of a direct tax are the following :—(1) The great merit of such a tax is that it satisfies the foremost canon of taxation *viz.* the ability to pay. Hence it admits of progression and can be adjusted is such a manner that the heavier burden falls on the richer section of the community. (2) The second advantage of a direct tax is that the tax-payer knows exactly the amount he shall have to pay and hence the canon of certainty is satisfied. (3) The direct taxes are more or less elastic and as such can be suitably adjusted to meet the needs of the State. Their yield can be easily increased or decreased by a change in the rate of graduation. (4) The tax is also economical, the cost of collection being very low as compared to the total yield. (5) It is also highly productive in the sense that the yield increases with an increase in population and wealth of the country. (6) Lastly, as the burden is directly felt by the tax-payer

his civic consciousness is roused and he begins to take more active interest in the affairs of the State. The disadvantages of direct taxes are, the following: (1) there are possibilities of evasion ; hence a direct tax is called a "tax on honesty" ; (2) large administrative difficulties also attend the imposition and collection of the taxes. On the whole, direct taxes are elastic, economical, just and equitable.

The advantages of indirect taxes may be enumerated thus: (1) Indirect taxes are the means by which all persons in this society can be made to pay something towards the expenses of the state. Thus they act as useful complements to direct taxes. (2) They enable the exchequer to have a fairly broad basis of revenue Too heavy taxation at a few points may dry up the sources and also produce undesirable social and political consequences. (3) They are also very convenient, as payments are made in driblets on our purchase which are spread over the whole year. (4) If the tax is imposed on articles of inelastic demand, the tax may be productive of sufficiently large revenues. (5) Lastly, indirect taxes on harmful articles, *e.g.* wine, narcotics etc. and on luxuries consumed by the rich may check their consumption and thus direct the purchasing power of the community to socially desirable consumption. But the disadvantages of indirect taxes generally outweigh their advantages. The greatest defect of an indirect tax is that it is inequitable. It is regressive in character and falls more heavily on the poor than on the rich. It also aggravates inequality in the distribution of social income. Secondly, indirect taxes are mostly uneconomical, the

cost of collection being very heavy. The person on whom the tax falls ultimately, may be made to pay an amount greater than the tax imposed by the State.

So far as the central finances of India are concerned, it can be said that indirect taxes play a more important role than that of direct taxes. Customs alone, for example, contribute more than one third of the total annual revenues of India. The duty on salt, which is a tax on an indispensable necessity of life, also yields a considerable revenue. In recent years the character of central finance has, however, undergone remarkable changes. The relative position of different sources of revenue has undergone considerable changes. The financial system of India is rapidly changing and is coming more and more into line with the modern systems prevailing in western countries. This will be evident from the imposition of a variety of new taxes in recent years and the growing reliance on such direct taxes as income-tax. The yield from income-tax has increased by leaps and bounds. Since the war, its importance together with the proceeds of the Excess Profits Tax, has increased manifold. But in the sphere of provincial taxation indirect taxes still have a dominant role. Land revenue and excise still remain the mainstay of provincial finance. Most of the sources of revenue of Provincial Governments are regressive in character. The only direct tax attempted by certain Provincial Governments is the "profession tax". But at the present moment the tax that is gaining ground with the provincial governments is the sales tax, the burden of which will

fall more heavily on the poorer sections of the community.

Q. 120. Describe the main provisions of the Excess Profits Tax Act, 1940. (B. Com., 1940.)

In the Statement of Objects and Reasons appended to the Excess Profits tax Bill, when it was introduced in the Central Assembly in January, 1940, it was stated that the outbreak of the war, while it had necessitated greatly increased expenditure by the Government on defence and other services, had simultaneously created opportunities for the earning by companies and persons engaged in business of abnormally large profits. It was further stated that the object of the Bill was to secure for the Government a considerable portion of the excess profits which accrued as a result of the conditions prevailling during the war. The Excess Profits Tax Act, 1940, was finally passed in 1940. The British model was largely followed in the Indian Act. The principle underlying the levy of an excess profits tax is simple. In times of war, additional revenue has to be raised by the Government to meet the enormous cost of war measures. Most of this money is spent in the purchase of articles necessary for the war, and some business and industries accordingly show an abnormal rise of profits. In accordance with the principles of priority of taxation and equity, it is natural that the State would first tax those businesses which earn extra profits as a result of war conditions, as these profits are of the nature of a windfall. Since it is almost impossible to determine whether the excess profits derived by a business concern is directly traceable to war conditions, the tax is imposed on all

excess profits derived during the continuance of the hostilities, irrespective of whether the increase is the direct result of the war or not.

The main provisions of the Act may be explained thus :—Under the Act the rate of tax is 50 per cent. of the excess of the profits made in any chargeable accounting period after September, 1, 1939, over what is called "standard profits". The standard profits are, in respect of businesses in existence prior to March 31, 1936, the average of various accounting periods from 1936-37 to 1939-40 The taxpayer has been given the option of choosing between several periods or averages, and provision has been made for a reference to a Board of Referees for special relief, if the profits during each of the periods which could otherwise have been chosen are abnormally low, provided such relief shall not exceed the statutory percentage. The standard profits for business started after the 1st day of April, 1936, are computed by reference to a percentage of the capital employed in the business. This is called the statutory precentage and has been fixed at 8 per cent. in the case of ordinary joint-stock companies and 10 per cent. in other cases. Profits earned over and above this statutory percentage shall be deemed as excess profits for the purpose of the tax. The exemption limit has been fixed at Rs. 36,000, i.e. if the profits during any chargeable accounting period do not exceed this minimum, the question of liability to excess profits tax does not arise, and the tax shall not be levied. Life Insurance Companies have been specifically exempted from the scope of the Act. The rate of the tax for any year 'subsequent to March 31, 1940, will

be fixed by the Annual Finance Acts Subsequently, the rate of the tax was raised to $62\frac{2}{3}$ per cent of which $6\frac{2}{3}$ per cent was refundable at the end of the war. By an ordinance issued on 17th May, 1943, a compulsory deposit amounting to $\frac{1}{5}$th of the tax was provided for. From 1st April 1944, the amount of the Compulsory deposit was increased to 19/64 of the tax. The Compulsory deposit bears interest at the rate of 2 per cent. per annum and is refundable at the end of the war

Though the levy of such a tax can hardly be questioned in principle, its imposition in India, considering the circumstances prevailing, produced many unsatisfactory results. In the first place, in veiw of the very rigorous manner in which prices were controlled in India, war prosperity was hardly successful in making itself felt. Moreover, the loss of export markets as a result of the war had disintegrated the entire Indian economy. Secondly, as business had been increasing slowly but steadily, the profits earned then could hardly be regarded as "normal" or "standard" profits Therefore there is no justification for the Government to take away of the "so-called" excess two-thirds profits. Thirdly, the tax would prevent business concerns from building up reserves for the inevitable post-war slump. No allowances have been made for terminal losses, e g. losses incurred in the shift from peace to war basis. Lastly, in view of the proverbial shyness of Indian capital, the fixation of the maximum statutory percentage at 8 and 10 for new business concerns would be too low for attracting new capital to business and industrial ventures. Therefore the opportunity provided by the war for

a further industrialisation of the country, thereby freeing it of its hopeless dependence on the foreign sources of supply for a large number of basic materials and necessities of life would be lost.

The above arguments represent the views of Indian industrialists. They keenly resent the fact that the E.P.T. and the income-tax take away 94 per cent. of their profits. But it may be urged that due to the inflationary policy pursued by the Government, they made fabulous profits during the war. Again, a substantial portion of the excess profits will be refunded to them after the war. The Government has recently decided to increase the scale of depreciation allowance. The failure to industrialise India during the war was not due to E.P.T. but due to the deliberate policy of the Government in not allowing the importation of machines and machine tools on the plea of shipping difficulties. As the road to new private investment was thus barred, the absence of the E.P.T. would have simply made inflation run amok, to the further miseries of the Indian masses. As the E P.T. destroyed the profit motive many business men became extravagant in respect of salaries and allowances. Subsequently, by an ordinance, the Government tried to put a stop to these extravagances.

Q. 121. Describe the relative advantages of loans and taxes as methods of raising revenue. Illustrate your answer by special reference to Indian Conditions. (B. A., 1930).

Generally speaking, there are two methods of raising funds by the state, either by taxation or by loans. The determination of the principle which would guide the

national exchequer in choosing between the two alternatives is, however, very difficult Practical expediency has a large say in the matter. There are times when no further money can be raised by taxation without causing the greatest inconvenience to the people. The State may then have no other alternative than to borrow But the general principle is that taxation should be resorted to meet the current expenditures of the Government, while money needed to meet an unforeseen contingency or for productive purposes, the investment of which would also benefit largely, not only the present generation, but the future generations also, should be raised by loans It takes some time to raise revenue by means of taxation. Therefore, when prompt action is called for and when money is urgently necessary, it is more expedient to resort to borrowings for raising the money necessary for state purposes. Again, when the amount is so heavy that taxation fails to get the necessary revenue, loans are raised for supplementing taxation. War provides such an occasion for both loans and taxation. Some of the modern economists, however, advocate a policy whereby war should be financed entirely by means of taxation. There are weighty reasons for such an opinion, which may be stated thus—(1) During a war unnecessary consumption by the civilian population should be checked, and taxes are the best means to achieve this end. Moreover, the rich may be made to pay more towards war expenditures. (2) Government borrowings are generally followed by expansion in bank credits which ultimately lead to inflation, whereas taxes do not favour an inflationary tendency. Thus taxes whould help to

put down war expenditures. (3) It is held that during a war "conscription in man power should be attended by a parallel conscription of incomes and capital". (4) Lastly, war-time loans shall have to be repaid by heavy taxation in post-war period. Taxation would avoid the excessive burden of post-war taxation which would weigh heavily on trade and industries. But Prof. Seligman is of opinion that even an extreme taxation of all incomes and business profits would meet only a portion of huge war expenditures. Therefore, a combination of these two methods, viz. loans and taxes, appears to be more appropriate to meet sudden and heavy expenditures, such as are entailed by a war.

In India many of the wars waged after the taking of the administration from the Company's hands were financed by war-loans. The railways have also been constructed with borrowed money. Public works such as major irrigation project have also been financed by means of loans raised either in England or in India. But during the present war too much emphasis is being laid on taxation. Loans have not yet been tried on a fairly big scale. Thus viewed, the present policy of the Government of India in trying to meet the greater portion of defence expenditures by taxation rather than *with loans may be regarded as defective and unsatisfactory.*

Measures of War Finance (1939-45)

The war was financed partly by taxes, partly by loans and partly by issuing notes *i.e.* by inflation. The following tax measures were adopted. An Excess profits Tax

was imposed at the rate of 50%, the rate being subsequently increased to $66\frac{2}{3}\%$. Surcharges were imposed on income-tax and super-tax. The surcharges progressively increased during the war. As under the budget of 1945-46, the surcharges on income-tax ranged from 6 pies to 27 pies and surcharges on super-tax ranged from 12 pies to 42 pies in the rupee. The Corporation Tax was raised from one anna to three annas in the rupee. The excise duty on matches was doubled and the excise duties on sugar and motor spirit were raised 50% New excise duties were levied on tyres and tubes, tobacco, vanaspati ghee, tea, coffee and betel-nuts. Direct taxes increased much more than indirect taxes and the tax system as a whole became progressive. Loans were floated such as the Defence Loans, Victory Loans, Defence Savings Certificates etc. These loans brought in Rs. 833 crores by the end of January, '45. But the most characteristic feature of the war finance was the issue of notes against sterling paid in London for defraying that part of the war expenditure which was allotted to His Majesty's Government. In this way, inflation took place Another notable feature was the Lend-Lease aid furnished by the U. S. A., which was partly offset by the Reserve Lend-Lease furnished by India to the American army.

Q. 122. Describe the Budget Procedure in the Central Legislature of India. (B. Com., 1939.)

The Budget is the Annual Financial Statement of the estimated receipts and expenditures of any Government for every financial year, as presented in the legislature. A financial year runs from the month of

April of each year to the month of March of the succeeding year. The Budget is placed before the Legislature a few days before the expiry of the last financial year. It is introduced with an explanatory memorandum or speech by the Finance Member or the Finance Minister, as the case may be. No discussion on the budget takes place on the day it is dealt with at two stages: (1) a general discussion; and (2) the voting of demands for grants. A few days, generally three or four, after the budget is presented before the Legislature, a general discussion of the budget as a whole or of any principle is begun. No motion can be moved at this stage, nor can the budget be submitted to vote. The general discussion on the budget serves three useful purposes. It enables the Legislature to discuss revenue estimates, non-votable expenditures, and the ways and means programme of the Government. The general discussion usually continues for three or four days. After the general discussion is over, voting of demands for grants is taken up by the Legislature. The members of the Legislature, however, cannot vote on the non-votable items of expenditure. They can only discuss them. For example, the salaries and allowances of the Governor-General, the Ministers, etc. are non-votable expenditures according to the Government of India Act, 1935. Each demand for grant is introduced in the Legislature by the Member or Minister in charge of that subject A fixed number of days in allotted for the voting of grants. All demands for grants are made by the Executive Government. Private members have no right to introduce any fresh grant. They may either refuse to pass

a demand already introduced or reduce it, but cannot increase it. Motions for voting of grants are made with two objects—either to effect economy, or to obtain satisfaction or elicit information from the Government on the subject to which the grant relates In the former case, the exact amount by which the grant is sought to be reduced is specifically stated. But the usual motions are of the second type. They are called "cut motions" and are made for a nominal amount, say Re. 1 or Rs. 100. They generally raise political issues. If the reply or the information given by the Government is considered unsatisfactory, such a motion may be even pressed to a division, and may amount in certain cases to a censure on the Government, if the latter sustains a defeat on the result of the votes taken.

Authentication of the Schedule :—After the voting of demands for grants is over, the Governor-General in case of the Federation authenticates by his signature a schedule specifying (1) the grants made by the legislature, and (2) the sums that are required to meet the expenditures charged to the revenues of the province or the Federation If the Legislature has rejected or reduced the sums that relate to the special responsibilities, the Governor-General is empowered to restore them at his discretion, if he considers such a step necessary for the due discharge of his special responsibilities. The authenticated schedule is then laid before the Legislature for the information of the members, but it is not open to any further discussion or vote.

The Finance Bill :—If the expenditures exceed the

receipts of the Government, that is, if the budget is a deficit one, Government takes recourse to either loan or fresh taxation to meet the deficit. In case of fresh taxation, the Government introduces their proposals of taxation either in a single bill or in separate bills. These bills are then placed for sanction before the Legislature.

Q. 123. Write notes on (1) Salt tax, (2) Opium Policy of the Government (3) Treasury Bills, and (4) Ways and Means.

Salt Tax:—Taxation of salt in India dates back to ancient times. It was handed down by the E. I. Company when the administration of India came under the Crown. There have been numerous changes in the rate of the duty from time to time. Up to 1882 the rate varied from province to province. In that year a uniform rate of Rs. 2 per md. was levied for the whole of India, except Burma. The rate of duty was raised to Rs. 2-8 in 1886, but was lowered to Rs. 2-4 in 1903 and to Re. 1-8 in 1905, and further to Re. 1 in 1907. The duty then equalled the rate of Burma. The rate of duty was again raised to Re. 1-4 in 1916 and to Rs. 2-8 in 1923, but was subsequently reduced to Re. 1-4 in 1924. In 1931 a surcharge of 25 per cent was imposed and the rate amounted to Re 1-9 per md.

There are two methods of levying the duty on the salt manufactured in India: (i) The Government either manufacture salt or obtain monopoly of supply by requiring private manufacturers to sell to the Government. (ii) Secondly, the Government allow the private manufacturers to sell salt on payment of the excise duty.

Over and above the excise duty, a protective duty of $4\frac{1}{2}$ as. per md. has also been levied on imported salt The annual revenue from salt amounts to about Rs. 8 crores.

The salt duty is one of the most unpopular taxes in India The main objection to the tax is that it is a tax on a necessary of life, and a restriction of its consumption has an undesirable consequence on the health and physique of the people If salt can be had at a cheaper price, it can also be given to the cattle along with fodder and other cattle foods. Again, as it is pointed out, it is a regressive tax in that it falls more heavily on the poor than on the rich. In support of the tax, it is argued that being an old tax, it is not regarded as a tax and people cease to feel the hardship from sheer habit. It is also argued that it is one of the very few means of reaching the masses by direct taxation, who should also contribute something towards the expenditures of the State. Furthermore, even if it were abolished, the income of the people would not be augmented to appreciable extent. If, however, the Government are not in a position to abolish the duty altogether for fear of losing the revenue, the duty should be fixed at a very low pitch, so that its consumption is not adversely affected thereby.

Opium Policy :—Until recently opium was an important source of considerable revenue to the Government of India, next in importance only to land revenue. The opium revenue until 1935 was derived from three main sources: (1) monopoly profits from the sale of opium manufactured in Government factories; (2) income from the export duty levied on the purchase of

opium for export purposes from certain Indian States; and (3) licence fees of vendors who cater to the needs of internal consumption Even as late as the closing years of the first decade of the present century, revenue derived from opium amounted to about Rs. 8 crores. Since then revenue fell due to the deliberate adoption by the Government of a policy to restrict the export of opium to China.

In 1907 the Government of India entered into an agreement with China, under which the Government undertook to stop by gradual processes the export of opium to China. It was also agreed upon that China would also curtail her production of opium. This step was undertaken by the Government of India at the dictation of the Secretary of State for India and on philanthropic grounds. It was, however, pointed out that British righteousness was satisfied at the cost of Indian revenue. The Government policy regarding opium now is to pèrmit exports only for strictly medicinal purposes, and all sales of opium are now made direct to foreign and colonial governments, which must be accompanied by an import permit from the purchasing government. After 1935 the revenue from provision opium has, therefore, ceased, and whatever receipts from opium are now received are derived from internal consumption of opium in India. Internal consumption in India is, however, very high, and Government should try to restrict it to the narrowest possible limits, though at some sacrifice of revenue.

Treasury Bills :—The issue of treasury bills is one of the accepted devices adopted by Governments for taking

loans for temporary periods. It is a form of public borrowing. Government revenue comes in driblets and is spread all the year over. It does not come all at once, nor at the beginning of every financial year. But though Government has to make disbursements at all times of the year, the amount needed at times may be very heavy. The Government then borrows from the public by selling Treasury Bills at a certain rate of interest These Bills are issued for short periods, generally three or six months. The proceeds of these loans are used by the Government to meet their current obligations When the coffers of the Govenment are replenished later in the year from ordinary receipts, all the Bills are redeemed at the end of the stated periods for which the Bills were floated.

This system was first introduced in India in 1917 for meeting the Government's disbursements on behalf of the British War Office. Treasury Bills were also issued to meet the deficits in the Central Budget during the years of post-war depressions. Since 1929-30 the system, because of its convenience, has become a normal feature of the Central Budget. After the introduction of the Provincial Autonomy some of the Provincial Governments also have resorted to this method for raising short period funds

Ways and Means :—Ways and Means are the advances which governments take from the Central Bank of the country to meet current expenditures. Government expenditures may at times be very heavy and the revenue position of the Government may not be sufficiently fluid to meet them. Therefore, in anticipation

of coming revenues Government takes advances from the Reserve Bank and meet the expenditures that may fall due. When the revenue comes in, the Government pays back the money to the Reserve Bank. Ways and Means position also reveals the fluid resources of the Government at any moment. In India, ways and means position also shows the balances which the Government must keep with the treasuries for meeting all expenditures that may fall due.

Q 124. Taxes are levied both for revenue as well as for social purposes. Give examples from the Indian system. (B. Com., 1931.)

Taxation is one of the best recognised methods adopted by civilised governments all over the world to defray the expenditures of the State. It is also the most fruitful source of revenue, because the preponderatingly large portion of State expenditure comes from this method. Every Government impose a variety of taxes. The aim of all these taxes may not always be the raising of revenue Other social objects may be in view. For instance, the Government of a country may, desiring the rapid development of a number of industries within the country, impose customs duties on foreign commodities at very high rates. The object in imposing such *a tax is frankly protectionist,* and not so much the raising of revenue. Again, very high duties may be imposed on harmful luxuries and narcotics and intoxicants in *order to restrict their consumption in the* interest of society. Lastly, taxation may also be used as a method of smoothing out the glaring inequalities of the present distribution of wealth. The distribution of

wealth in modern society is admitted to be highly inequitable. Accordingly, following the canon of ability to pay, heavier taxes are imposed on shoulders that are best able to bear them.

The Government of India also impose taxes both for revenue and social purposes. For example, the majority of the customs duties, the land revenue, etc. have been imposed for revenue purposes. The duties on the imports of sugar, iron and steel, printing and writing paper, mechanical wood pulp, magnesium chloride, etc. are protective in nature. Here the object for the imposition of these duties is to foster the healthy development of indigenous industries. In a narrow sense, the income-tax and the excess profits tax may be said to have a tendency to lessen the inequality of distribution of wealth in India. The object of the excise policy of the Government of India is both revenue and restriction in consumption of socially harmful articles

Q. 125. Give a brief account of local taxation in Bengal. (B. Com., 1939.)

Q. 126. Give some account of the revenue and expenditure of a District Board or a Municipality in Bengal. (B. Com., 1938.)

Local bodies can be conveniently divided into two classes—District and Local Boards, and Municipalities. Since more than 90 per cent. of the total population in India live in villages, institutions belonging to the former category are much more important than municipalities which serve the interests of small urban population A substantial portion of the revenues of these District and Local Boards is provided by cesses or rates on land. The

land cesses are collected along with land revenue but are largely administered by local bodies. Besides, there are the road and education cesses. Toll charges on local ferries also yield something to the funds of these local bodies A small revenue is also derived from cattle pounds in villages. Sometimes they also get grants from the provincial government for specific purposes. For instance, the lump grant for rural uplift work, received from the Central Government, was distributed among them by Provincial Governments. In the case of union boards having jurisdiction over a few contiguous villages, the chowkidari taxes are their only source of revenue, so to say. The revenues of these local bodies are spent chiefly for the construction and repair of roads, the upkeep of schools and dispensaries, village sanitation and other expenditures of local character. The village union boards have also to pay for the maintenance of village watchmen.

Municipal finance is, however, a little more broad-based than district board or local board finance. Municipalities derive their revenues from a variety of sources which can be conveniently grouped in the following manner :—(1) Taxes on trade, such as octroi duties, tolls, terminal taxes, etc. ; (2) taxes on house property ; (3) taxes on professions, trades and callings, etc. ; and (4) fees and licences. Fees are generally levied for specific services rendered by the municipality. If the current revenues of municipalities are not sufficient to meet the actual expenditures, municipalities sometimes borrow money from the public. On the expenditure side of municipal finance, public health and convenience, public-

works and education stand out most prominently. These alone account for the greater portion of the total revenue. The Taxation Enquiry Committee was of opinion that greatest care should be taken in the matter of levying of such taxes as octroi duties, terminal charges and tolls, which, if injudiciously imposed, might lead to an undue interference with inter-provincial and intra-provincial trade.

But considering the devolution of powers to local bodies and the wide range of functions assigned to them, such as a public health, sanitation, education, etc, it must be admitted that the resources at present enjoyed by them are extremely inadequate. It is futile to expect better services from these bodies, unless more money is placed into their hands. One of the reasons of this financial inadequacy of local bodies is the very low taxable capacity of the people. The people are also unwilling to a certain extent to tax themselves for their own common benefit. Furthermore, some are of opinion that under the present allocation of revenues, the local bodies have been treated in a most niggardly manner. The taxes which the local bodies can levy are specified in the Scheduled Taxes Rules. Most of the sources are already being tapped by municipalities. The Taxation Enquiry Committee suggested the following measures for increasing the resources of local bodies :— (1) conversion of the capitation tax and the chowkidari tax into sources of local revenue ; (2) standardization of land revenue at low rates so as to allow for larger scope for local taxation , (3) empowering municipalities to tax advertisements ; (4) share in the proceeds of

entertainment and betting taxes; (5) improvement in the administration of local taxes; (6) levying marriage fees in certain localities. The Committee also made some other suggestions of a minor nature But the most certain way of increasing the resources of local bodies is to extend the scope of municipal trading and enterprise, which would lessen the utter dependence of these bodies on taxes. In western countries municipal tramways, waterworks, gas, electric works, burial grounds, bakeries, dairies, etc. render effective service to the people At the same time these enterprises yield large revenues to municipalities. In India these sources are very inadequately tapped. It is, therefore, only proper that these sources should be tried more and more in order that, while adding to the amenities of civic life, they can add to their slender resources as well.

Q. 127. What are the attributes of a sound system of taxation? In this connection critically examine the tax system of the Central and Bengal Governments. (B. Com., 1934, 1935, 1938.)

A sound system of taxation should satisfy the following canons: (1) The tax system, taken as a whole should be equitable. That is, taxes should be imposed with reference to the ability of the tax-payers on whom the burden falls. This also implies the tax system should be progressive, because the richer classes are able to pay larger taxes than the poorer people. (2) It should also satisfy the canon of certainty. That is, the tax-payer should know the definite amount that he will have to pay, and the time when he will have to pay. (3) The canon of convenience should also be followed in that the

taxes should be collected at a time and in a manner in which it will be most convenient for the tax-payer to pay. (4) The canon of economy should also be satisfied. This principle implies that the costs of collection should be kept as low as possible and should not swallow up the greater portion of the proceeds of the tax (5) The taxation should also be productive and elastic. That is, the entire tax system should be so devised that it yields sufficient funds for the needs of the State. It further implies that taxes should increase or decrease according to the needs of the State.

Judged by the canons stated above, neither the Indian system of taxation nor the provincial ones can be regarded as satisfactory. The most glaring defect in the Indian tax system is that it does not satisfy the first principle of taxation, that is, it is not equitable. Taxes are not in all cases imposed with an eye to the ability of the tax-payers. Too much of attention is paid to indirect taxes, while, until recently, direct-taxes yielded comparatively small revenues. Taxes have been imposed on the necessaries of life and on the raw materials consumed by industries. The result has been, that while the poorer classes pay more than what they are able to pay, the richer classes escape their due share of the burden The tax system has, therefore, been very regressive in character. But with the increase of income tax, super tax and taxation of luxuries at higher rates, etc. in recent years, the tax system of India is gradually coming into line with the progressive tax systems in other countries. Coming to the sphere of provincial taxation, we find that land revenue which, as a tax, is regressive in character, yields the

greatest revenue to the provinces. The cultivator shall have to pay the land revenue, whatever may be his income, and there is exemption limit. It is also not progressive, and bigger landlords, therefore, do not pay proportionately higher rates of land revenue In Bengal especially, the land revenue has become highly inequitable because of the Permanent Settlement and fixity of revenues payable by the Zamindars. The principle of progression can be applied to the provincial tax system, if a graduated scale of agricultural income tax and death duty are levied. Bihar and Assam have already imposed taxes on agricultural income. By the imposition of these two taxes and a suitable modification of the existing ones, the provincial tax system can be made more eq table.

Q 128. Discuss the taxation principle of "ability to pay." To what extent is the principle followed in the tax system of Ind
(B. Com., 1940

See answer . Q 119

Q. 129. What are protective d es? To what degree is the Indian customs system inclusive of protective duties? (B. Com., 1938.)

The theory of protection means that the domestic industries should be sheltered against foreign competition by means of Government regulations. One of the devices is the imposition of a very high rate of duty on the imports of goods from foreign countries, which it is the intention of the Government to manufacture or develop within the country Here the chief object is to foster the development of indigenous industries, not the raising of revenue. Export duties are sometimes imposed

on the export of raw materials as a measure of protection to the industries which consume those raw materials.

In order that a satisfactory system of balanced economy can be fostered in India by means of diversification of industries, the Government of India, following the recommendations of the Fiscal Commission in 1924, have adopted the policy of discriminating protection for giving the necessary stimulus to industrial development in India Since then many industries in India have received protection at the hands of the Government. Mention may be made in this connection of iron and steel, leather, some heavy chemicals, paper, sugar, etc. which, owing to protection, have made rapid progress in India. As it must happen, the customs revenues have undergone some shrinkage in recent years. But it is hoped that with the rising prosperity due to the development of industries within the country, the Government will be able to make good the loss of revenue of customs from other sources of taxation.

Q. 130. Distinguish between productive and unproductive expenditure. Would you regard state outlay on education and public health in India as productive? (B. Com., 1939.)

Public expenditures may be classified as productive or unproductive. But there is no unanimity as to the criterion of this productiveness If profit, in the sense a businessman understands it, is taken as the criterion, then obviously many expenditures would be regarded as unproductive though these expenditures may confer great benefit According to Robinson, any State expenditure should be regarded as productive which directly or

indirectly develops the natural or human resources of the nation or leads to their more economical use, and which may be expected to increase national prosperity by increasing the national wealth, and may thus be expected ultimately to pay for itself—given the important qualification that the gain due to increased expenditure is not less than the loss caused by heavier taxation. Thus, expenditures on transports or communications, or on education, public health or administration of factory laws, are all productive in the long run. Even moderate expenditures on war and on armaments in peace times should also be regarded as productive, because such expenditures facilitate the creation of further wealth, but extraordinarily heavy expenditures on these accounts in peace times should not be so regarded, as the aim is then destruction of wealth and not its creation.

Judged by this standard, the expenditures incurred by the Government of India on education and public health should also be regarded as productive, because these expenditures will lead to an increase in the number of educated people within the country and an improvement in their physical well-being. With an increase in literacy and physical strength and well-being, the efficiency of the people as productive units in society will also increase in the long run, which will fully repay these expenditures.

Q. 131. The accounts of the Government of India are divided into four sections as follows: (a) Revenue account. (b) Capital account. (c) Debt and Deposit account, and (d) Balances. Explain clearly what each of these signifies. (B. A., 1918.)

It goes without saying that public accounts should be a correct statement and include all the financial transactions of the Government pertaining to any financial year. But it is no less important that they should be clear and easily understandable They should be well arranged and in a form so as to tell the tax-payer all that he needs know about Government's financial activities and the state of its purse. Hence, Government accounts have been divided into four main divisions: (1) Revenue (2) Capital, (3) Debt, and (4) Remittance.

The "revenue account" deals with the proceeds of taxation and other receipts classed as revenue and expenditure therefrom, the net result of which represents the surplus or deficit of the year. The "capital account" deals with expenditure met usually from borrowed funds or accumulated cash balances, such expenditure being incurred with the object either (a) of increasing concrete assets of a material character, or (b) of reducing recurring liabilities, such as those of future pensions by payment of their capitalised value. Receipts of a capital nature are small and arise generally from sale-proceeds of concrete assets. In some cases, however, capital outlay is financed from ordinary revenues instead of being met from borrowed funds. Such outlay, though recorded in the capital account, is taken into account in working out the surplus or deficit for the year and comes within the "revenue" account. The "Debt and Deposit" account comprises receipts and payments in respect of which Government becomes liable to repay the moneys received or has a claim to recover the amounts paid, together with the repayments of the former and the recoveries of

the latter, e.g. receipts and disbursements on account of loans and advances, savings bank, departmental and judicial deposits, etc. The "Remittance" account or "cash balances" embraces transactions which fall under neither of the three divisions mentioned above, such as cash remittances from one treasury to another, remittances between England and India, receipts and payments on account of Postal, Military or Public Works Departments etc. The importance of maintaining adequate "cash balances" arises on account of two factors—space and time. The Government of India's transactions are spread over the whole of India and it frequently happens that the revenue received in one area is not adequate to meet the disbursements in that area. Funds have accordingly to be remitted to such areas from other areas where there is a surplus of receipts over disbursements. Apart from this, the flow of receipt and disbursement is very uneven during the year. The major portion of the revenue is received late in the year, whereas the expenditure is more or less steady from month to month. Government cannot afford to say to its creditors that they should wait till there is sufficient cash in the treasury. Hence in the interest of its financial credit, the Government has to see that there is at all times enough cash wherever required to meet Government disbursements. All the cash balances of the Government are kept with the Reserve Bank or with the Imperial Bank where there is no office of the Reserve Bank. At places where there is neither an office of the Reserve Bank nor a branch of the Imperial Bank, Government cash balances are kept in the district treasury under the control of district officers.

All the cash transactions of the Government pass through this account division.

Q 132. Distinguish between Capital and Revenue expenditure. What are the purposes for which borrowed money has been employed by the Government of India ? (B. Com., 1923.)

For the first part see Answer to Q. 118.

It is true that borrowed money has been utilised both for productive and unproductive purposes by the Government of India, but the wholesome feature of it is that by far the greatest portion of borrowed money has been spent for productive purposes The Government of India has spent large funds, secured by means of borrowing, for the construction of railways, large irrigation projects, etc. in India, which yield good revenues to the Government. Of the total interest-bearing obligations of the Government of India on the 31st March 1936 of Rs. 1202 crores, Rs. 989 crores were covered by interest yielding assets. This proves the soundness of the public debt position of the Government of India so far as the utilisation of its borrowed funds is concerned. The unproductive purposes for which the Government of India has spent borrowed money are the payments made on account of the wars of conquest of the East India Company, the free gift of Rs 150 crores during the last Great War, Rs 15 crores for the construction of New Delhi, and the expenses incurred to meet budget deficits during the years of post-war depression.

Owing to the fact that the major portion of the public debt is productive, the real burden of the debt to the taxpayer is comparatively small.

Q. 133. "Customs revenue is generally elastic." Explain. Describe the importance of customs as a source of revenue of India's Central Government. (B. Com., 1940.)

Customs revenue is elastic in the sense that it increases or decreases with a rise or fall in business prosperity. Business prosperity means an all-round improvement in the economic activities of the country in all its spheres. This improvement is also reflected in the volume of international trade of the country concerned. Both export and import increase With an increased volume of international commerce, the revenue derived from this source is bound to register an increase. Increased business prosperity also results in an increased taxable capacity of the people ; so the people are better able to bear the burden of increased customs revenue The opposite result follows if business conditions are stagnant or depressing.

Customs revenue holds a predominant position in the finances of the Government of India. In 1913-14 customs revenue of the Government amounted to Rs. 11·1 crores. But the needs of war finance and the post-war financial deficits led to a great steepenning of the rates of duty. The changes effected under the stress of financial stringency have changed the nature of the customs duties and the position occupied by them in the Indian fiscal system. The general level of duties was raised during the post-war period and the free list of goods was heavily curtailed. Special taxes were also imposed on luxury goods. As a result the revenue derived from customs duties showed rapid increase and amounted to

Rs. 44 crores in 1939-40. Thus the customs revenue alone contributes as much as 36 p. c. of the total normal revenue budget of about Rs. 124 crores of the Government of India.

The imposition of protective duties and the introduction of imperial preference were apprehended to decrease India's customs revenues. But the actual course of events has belied these apprehensions. Protective duties have diversified the nature of our imports The war caused a fall in customs revenue but at the end of the war customs revenue is likely to shoot up. During 1945-46, customs revenue is estimated to yield Rs. 52·85 crores. After the war India will heavily import Capital goods for the purpose of industrialisation. This will keep up the customs revenue for some years to come. As India completes her industrialisation programme the customs revenue is bound to fall.

CHAPTER XV

Currency and Exchange.

*134. Discuss critically the advantages and disadvantages of stablising the exchange Value of the Rupee (i) at 1s. 6d. or (ii) at 1s. 4d. (B.A. 1927 ; B.Com. 1932, 1934, 1935, 1939.)

The relative merits or demerits of fixing the exchange value of the rupee at 1s. 6d. or at 1s. 4d. were much discussed at the time of the Hilton Young Commission when the ratio was fixed at 1s. 6d. and during the few

years that followed it The discussions were then of immediate importance, for the new ratio had not yet been adjusted to the economic system of the world. Now that more than 18 years have passed since the fixation of the Rupee exchange at 1s. 6d., those arguments for or against it do not any longer hold good Yet, as an economic event in the currency history of the country, the ratio controversy has its own importance.

The ratio controversy originated from two groups of economists and public men, one group advocating the majority conclusion of the Hilton Young Commission, *viz.* 1s. 6d. to be the Rupee Exchange Ratio, while the *other group* advocating the view point of the minute of dissent of Sir Purushottamdas, *viz*, 1s 6d. to be the Rupee Ratio. The arguments urged in favour of the view points may be briefly discussed.

(i) Consideration of arguments in favour of 1s. 6d.

(*a*) The majority members of the Hilton Young Commission argued that, since 1s. 6d. had been the actually prevailing ratio for some time past, and price adjustments had taken place, any other ratio would disturb the economy of the country. To this it was appropriately pointed out that the 1s. 6d. ratio had been maintained by artificial measures i. e. by deliberate deflation. There was a good deal of proof in favour of this assertion. Besides, about the reliability of the price index as indicating the price adjustment the majority were themselves sceptical.

(*b*) Another argument was that wages were also in adjustment with the new ratio. But there was hardly any statistical data to prove this conclusion.

(c) Another argument was that since after 1917 and up to 1925, the 1s 4d. ratio had prevailed only for a short period, most of the contracts entered during the period had been on the basis of 1s. 6d ratio. Hence the business people did not stand to lose by the 1s 6d. ratio. To this it may be pointed out that since 1s 4d. had been considered to be the natural ratio, many contracts might have taken place on the basis of this natural ratio.

(d) From the financial standpoint, it was argued that the high ratio (1s 6d.) would considerably assist Government finances, for the command of the rupee over a larger amount of foreign currency meant so much less rupees for meeting external obligations. This would also add to the financial strength of the Government

(e) The majority argued also that since prices had risen in recent years, any further rise in price due to a reversion to 1s. 4d. would hit the masses adversely. The argument had some force, but it was based on the assumption that prices had already become adjusted to 1s. 6d. This was not probably the case.

(ii) Consideration of the arguments in favour of 1s. 4d

(a) Since the 1s. 6d. ratio had been maintained by currency manipulation such as deflation of currency, a reversion to 1s. 4d. would set the economic system on an even keel. It was argued that much of the burden of the rural indebtedness had been due to the prevalence of the high ratio At the same time it may be stated that there were some compensating advantages also, for lower prices of agricultural implements etc. would be of benefit to the cultivators. It was also not considered

that agricultural indebtedness was contracted not in cash alone but in kind also

(b) Since adjustment in wages and prices had not taken place, the 1s 6d. ratio presented the foreign manufacturer with an indirect bounty of $12\frac{1}{2}$ per cent. which would affect India's industries, especially the Cotton Textile industry of Bombay. This argument had some force, for during some time atleast the effect of the high ratio was not favourable to India's industries.

(c) A reversion to 1s. 4d. would no doubt increase India's sterling liabilities in England but at the same time there were good possibilities of large gains on the score of increased customs revenue, increased receipts from income tax etc. because the lower ratio would stimulate business revival in India. This argument was based on problematic grounds.

In fact the world price-level began to fall shortly after, with the result that the 1s. 6d. ratio whose maintenance required still further deflation proved disastrous to India's industry and agriculture. On the whole none of the arguments adduced in favour or against either of the ratios had any absolute validity. They had reference to contemporary conditions alone; when after 1929, the economic depression set in, the ratio, controversy was renewed but in a new form. During the depression, India's favourable balance of trade fell sharply and the ratio could only be maintained by exporting gold from India and depleting the sterling reserves in London. The depression hit India very hard and there was a strong demand that India should depreciate the exchange and thereby put hereself on the way to eco-

nomic recovery. The official view was that exchange depreciation was a questionable method of recovery and that the rupee had fully shared the depreciation of sterling in terms of gold.

Q. 135. What are your reasons for holding that stability of Exchange is essential to the development of India's commerce? (B. Com. 1925; B. A. 1934.)

Stability of exchange is essential for the stability and progress of foreign commerce, for a number of reasons. If the exchange rate does not remain stable or the business world does not feel a certain rate will prevail for a pretty long time, they cannot possibly feel confident about the future, as such a feeling of uncertainty hampers trade transactions When the exchange rate tends to fall, import trade is bound to suffer while export trade tends to be stimulated. Such disturbances should not be prolonged or wide, for in that case movement of capital and goods from country to country cannot take place with a feeling of security.

There is another strong argument for the stabilization of the exchange. India has to make heavy payments abroad to meet Home Charges etc. So if the exchange falls, the foreign obligations of India become heavier with the result that the budgetary position of the India Government is bound to become unsatisfactory. The authorities in such cases cannot always frame their budget in full anticipation of the possible fluctuations in the exchange rate and necessarily budgetary uncertainty is to follow. This is a position which ought to be eliminated in the interest of the country

After the war the need for the stabilization of currency was urgently felt by all countries, for most of the war-weary countries were convinced that currency stability could not be secured merely by manipulation. It had its hazards and uncertainties. The restoration of gold standard in England in 1925 and the return of the Dominions and other countries to a gold basis were actuated by the same reasons. The Hilton Young Commission in India having taken the world situation into their full consideration strongly recommended the stabilization of the rupee. The fictitious ratio of 2s. could not be maintained, for it had no economic parity with world conditions. The time now came for a decision and the Commission (majority of the members) recommended the fixation of the rupee ratio at 1s. 6d.

This ratio, however, overvalued the rupee and there was a demand for lowering the ratio. This demand became more insistent when after the depression both England and India went off the gold standard but the rupee was still kept linked to 1s. 6d. sterling. Those who wanted the delinking of the rupee thought that this would raise prices in India, stimulate economic recovery, reduce the burden of agricultural indebtedness and restore India's balance of trade. The arguments on the opposite side are thus put by Dr. J. C. Sinha : (1) exchange depreciation would not remove the disparity between agricultural and manufacturing prices which was the main evil in India ; (2) as a debtor country, India could not afford exchange depreciation ; (3) the effects of exchange depreciation are extremly uncertain ; (4) it may lead to retaliation

by other countries. According to Dr. Sinha, a stable exchange is a better policy than free and fluctuating exchanges.

Q. 136. Describe the present arrangement for the issue and regulation of paper currency in India. (B. Com., 1938.)

At present the Reserve Bank of India is the sole authority of issuing paper currency in India. There are certain definite provisions contained in the Reserve Bank of India Act of 1935 according to which issue of currency is regulated. The condition governing the issue of currency are as follows :—

(*a*) The Reserve Bank must possess atleast a reserve of gold coin, gold bullion and sterling to the extent of 40% of the value of notes in circulation.

(*b*) The amount of gold coin and gold bullion is not to be less than Rs. 40 crores and not less than $\frac{17}{20}$ of the gold shall be held in India.

(*c*) The sterling securities should be payable in the currency of England and should consist of :

(*i*) Either bills of exchange maturing within 90 days payable in England, or

(*ii*) Government securities of the U. K. maturing within 5 years, or

(*iii*) Balances with the Bank of England.

(*d*) The other assets of the Reserve Bank shall be in rupees, rupee securities of the India Government, bills of exchange and promissory notes as may be considered eligible for purchase by the Bank. The amount of Government of India securities shall not exceed one-fourth of the total amount of the value of the notes in

circulation or Rs. 50 crores, whichever is greater. With the previous sanction of the Governor-General, however, the rupee securities may be kept up to the extent of Rs 60 crores.

The above conditions apply to normal conditions. But in a situation of great emergency, the Reserve Bank may approach the Governor-General-in-Council and with their sanction, may suspend the reserve requirements on payment of a graduated tax on the amount which is the difference between the legal reserve and the depreciated reserve. The condition with regard to the payment of a tax is on usual feature in all systems of central banking and is very necessary for the purpose of checking the Bank from violating the reserve requirements easily and too often.

During the war an ordinance was passed which provided for the holding of rupee securities in the reserve to the extent of ^{3}th of the note issue.

Q. 137. Discuss the effects of high sterling value of the rupee upon (1) Indian commerce, and (2) Home charges. (B. Com., 1927, 1929; B. A. 1935.

The value of the rupee in terms of sterling is to be considered high when a rupee will command a larger number of sterling than before. So whatever effect a high sterling value of Rupee will exert on the country's trade and commerce will be felt during the transition period when the price level and wages have not become adjusted to the new exchange value of the Rupee. Thus, when the external value of Rupee in terms of sterling becomes high, the price of India's exports rises in other

countries. So during a period of high exchange, exports tend to be curtailed for the reason that since the customer in other countries have to pay a higher price for India's commodities, their demand for such goods tends to fall. On the other hand, a high exchange means that the same amount of rupee worth of goods will yield more sterling in exchange. So imports from outside will tend to be encouraged, for the importers will find it more profitable to sell goods in the Indian market. The effects on the industries of the country will necessarily flow from the curtailment of exports and expansion of imports. Hence a high exchange value of the Rupee is expected to be harmful to the industrial progress of the country. In the long run, however, when internal prices will get adjusted to the new ratio, the special effects on the industry and commerce of the country will be eliminated. For, the eventual fall in prices within the country will largely offset the advantage which may be obtained from the fact of the Rupee having a command over a larger amount of sterling than before. A Rupee worth of goods may bring in more sterling, but since the price has fallen, more goods will have to be given in exchange for the same amount of sterling. So the long run adjustment will eliminate any special advantages flowing from the high exchange value of the Rupee.

Effects on Home Charges—India's Home Charges are fixed and paid in terms of sterlings. So if the value of the Rupee rises in terms of sterlings, for the same amount of sterling obligations India has to give a less amount of Rupees. In other words, for a time a high sterling value of the Rupee is advantageous to India,

for in terms of Rupees our obligations become less to the extent of $12\frac{1}{2}\%$. This advantage cannot, however, be retained for a long time, for when in course of time prices become adjusted to the new ratio, it is to be found that for the same amount of Rupees or sterling, India has to pay a larger amount of goods, due to the decline in prices in the meantime. Payments between countries usually take place through mutual trade transactions. So if India has to give more goods for the same amount of sterling, the advantage does no longer remain.

Q. 138. Describe the Gold Exchange Standard as is operated in India. Will you retain the system or do you want a change? Give reasons.

The principal features of the Gold Exchange Standard were described by Mr. J. M. Keynes in this way :—

(1) The rupee is unlimited legal tender and, so far as the law provides, inconvertible.

(2) The sovereign is unlimited legal tender at £1 to Rs. 15 and is convertible at this rate so long as the Government can be required under Notification of 1893 to give Rs. 15 in exchange for £ 1.

(3) As a matter of administrative practice, the Government as a rule is willing to give sovereigns for rupees at this rate, but the practice is sometimes suspended and large quantities of gold cannot always be obtained in India by tendering Rupees.

(4) As a matter of administrative practice, the Government will sell in Calcutta, in return for rupees tendered there, bills payable in London at a rate not more unfavourable than 1s. $3\frac{29}{32}$d. per Rupee.

The fourth provision was very necessary for supporting the sterling value of the Rupee, and although Government gave no undertaking to maintain it, a failure to do so would be tantamount to a breakdown of the system. The second provision was intended to prevent the sterling value of the rupee from rising above 1s. 4d. by more than the cost of remitting sovereigns to India and the lower limit is set by the fourth provision. This means in practice that the limits of variation of the sterling value of the Rupee are 1s. $4\frac{1}{8}$d and 1s $3\frac{29}{32}$d.

The mechanism of the system.—The chief purpose of the exchange was to maintain the value of the Rupee at par with gold. When exchange tended to show signs of weakness, Government were ready to sell sterling (Reverse Councils) and when the rupee was tending to appreciate, they used to sell local currency *(Council Bills)*. Thus there could not be any violent fluctuations. The efficacy of the mechanism depended, of course, on the adequacy of the gold and rupee reserves. During the war of 1914-1918 the system broke down, for, under stress of circumstances the Government had to raise the rate of exchange to 17d. in August, 1917 The abnormal conditions under which this had to be done were the heavy favourable trade balance of India and excessive rise in the price of silver.

Defects of the Gold Exchange Standard.—The Hilton Young Commission did not consider the Gold Exchange Standard a desirable one and their criticisms of the system were as follows :—

(a) The system was not a simple one, for the stability of the Rupee was not intelligible to the general

public. The currency consisted of two tokens, rupee and rupee-note in circulation and a sovereign which did not circulate. All this was not necessary. Besides, a rise in the price of silver might render the conversion of rupee notes a very expensive affair.

(b) There was an unnecessary duplication of reserves namely the Gold Standard and Paper Currency and Banking Reserves while the responsibility of controlling Currency and credit policy was divided. The Government of India controlled currency, while the Imperial Bank controlled credit. It was highly unscientific.

(c) The system did not provide for automatic expansion and contraction of currency.

(d) The system did not also provide for elasticity in its working

These were the considerations for which the continuation of the Gold Exchange Standard was not considered desirable by the Commision.

Q. 139. Explain precisely the meaning of Gold Exchange Standard. How does it differ from a simple Gold Standard? Which of these two standards do you consider the better for India and why? (B. Com., 1927.)

For a description of the Gold Exchange Standard see answer to Q. 153.

The chief feature of a Gold Standard is that local currency is maintained by a deliberate currency policy at a certain parity with gold. The Gold Exchange Standard also does not eliminate the use of gold. As such the difference between the two does not appear to be tangible enough, although it should be pointed out that while under the Exchange Standard gold is available

for external purposes and does not circulate within the country as local currency, gold under a full-fledged Gold Standard should circulate within the country as local currency.

As the Gold Exchange Standard did not operate satisfactorily enough, Indian public opinion was in favour of a change and demanded that a simple Gold Standard with gold in circulation for internal purposes should be adopted. It was considered that without gold in circulation, the system could not inspire sufficient confidence in the public. The Hilton Young Commission did not favour the introduction of a simple Gold Standard. They argued that it was possible to have a true Gold Standard without putting gold into circulation. They accordingly proposed the Gold Bullion Standard by which they meant that "the ordinary medium of circulation in India should remain, as at present, the currency note and the silver rupee and that the stability of the currency in terms of gold should be secured by making the currency directly convertible into gold for 'all purposes, but that gold should not circulate as money. It must not circulate at first and need not circulate ever."

In fact the development of monetary practices in recent years has proved that gold currency is unnecessary and is rather costly. It is generally maintained that the greater proportion of gold in circulation, the less the elasticity of the currency system.

Q 140. Indicate briefly the present currency policy of the Government of India adopted on the recommendations of the Hilton Young Commission of 1926. (B. Com, 1931.)

Q. 141. Point out the essential features of the Indian currency system as it works to day. (B. Com., 1940.)

The present currency policy is mainly based on the recommendations of the Hilton Young Commission of 1926. The policy formulated on the basis of the recommendations of the Commission covered the following measures :—

(1) A Bill to establish Gold Standard currency and constitute a Reserve Bank of India ;

(2) A Bill to amend the Imperial Bank Act, 1920 , and

(3) A Bill to amend the Coinage Act of 1906 and the Paper Currency Act of 1923 for certain purposes and to lay upon the Government certain obligations in regard *to the purchase of gold and the sale of gold exchange.* The Reserve Bank of India was eventually established in 1935. *But the notable fact was the fixing of the ratio* at 1s. 6d. and the establishment of the Gold Bullion Standard *as recommended by the Hilton Young* Commission.

Abandonment of the Gold Standard.—In 1931, England abandoned the Gold Standard and along with it the Government *of India also abandoned the Gold* Bullion Standard and linked the Rupee with sterling *fixing, thereby, the ratio at 1s. 6d. sterling. From this* moment onward, the fortunes of the Rupee were bound up with those of the sterling and India came *to have a sterling exchange standard.*

Linking of the Rupee with Sterling.—There was a good deal of controversy over the question, for there were many critics as well as supporters of this policy of

linking of the Rupee with Sterling. Those who supported the action of the Government adduced the following arguments :—

(a) India is a debtor country and it would not be wise on her part to allow the rupee to find its own level in the general chaotic conditions of the world trade and finance. Such a course might land India on the verge of financial bankruptcy.

(b) India owed annually about £32 millions to England and, therefore, it was her interest to link the rupee with the sterling.

(c) India's export trade with England and those countries within the sterling block was of considerable volume and constituted a major portion of her total foreign trade So it was not in her interest to leap into the dark and incur hazards.

(d) A devaluation of the Rupee that would follow might give a strong but temporary stimulus to India's exports to the gold standard countries.

The arguments on the other hand against the step were :

(a) By linking the Rupee with sterling, the Government of India was going to share the hazards of fluctuations in exchange along with sterling.

(b) While the linking of Rupee with Sterling might promote India's exports to Gold Standard countries, India was placing an obstacle to the imports from other countries and was granting a preference, so to say, to British imports in India

(c) The Hilton Young Commission had examined the sterling exchange standard and rejected it on the

following grounds: The sterling exchange standard has got the same basic defect as the gold exchange standard it will break down when the rupee reaches the melting point. If the rupee is linked to sterling, then prices in India will follow the course of sterling prices which is bad for India There are grave objections to linking the rupee to any one foreign currency.

There was force in the arguments on both sides no doubt, but it cannot be said definitely that one course was infinitely better than the other. Circumstances seemed to have suggested the course of linking the Rupee with sterling, but the occasion provided an excellent opportunity for giving an independent position and currency parity to the Rupee. A determined currency policy might have steered the Rupee clear of the international currency fluctuations. In any case, the action taken by the Government of India has not been very ruinous to India's economic interest.

Gold-Exports.—Another important feature of the recent currency development in India was the abnormal exports of gold out of India. The following statistics will indicate the position.

Exports of Gold from India

	Quantity Oz. (000)	*Value* Rs. (lakhs)
1929-30	2	1
1930-31	87	49
1931-32	8181	6078
1932-33	8526	6684
1933-34	6830	5815
1934-35	5775	5325
1935-36	4123	3830
1936-37	3183	2945

With the abandonment of the Gold Standard and the establishment of the link with sterling, the price of gold rose very high and there ensued an exodus of gold out of India as indicated in the above statistics. It was considered by the public that such uncontrolled export of gold constituted a veritable draining away of India's capital resources. As such a powerful agitation was started in the country urging the Government to place an embargo on the export of gold. It was also urged that since much of the gold exported which came from the masses was the accumulated savings of generations, Government should themselves purchase it all at a price as might be determined by the dollar-sterling cross rate and thereby strengthen the gold reserves of the country.

Arguments in favour of uncontrolled gold exports.—

But the Government of India did not recognize the fact that the export of gold was an wastage of national resources. They argued that the gold thus exported was nothing but a commodity just like many other export commodities of India and it was good to the country for the masses were getting a good price for their hoarded gold. They also maintained that the total store of India's gold was more than £750 millions and the rate of gold exports as it continued then could never exhaust the entire stock. Besides, India should not despair of bringing back gold in future for when the price would decline, the natural hunger of Indians for hoarding gold was sure to assert itself and the flow of gold would again come towards India. As regards the question of purchasing gold, the Government asserted that if they purchased gold at the prevailing high price, it would

amount to speculating in gold, for a day might come when the prices would crash. What will be the position of India holding huge stocks of gold? The special advantages that India derived from the export of gold were not only a good economic price to the holders of gold, but also a favourable balance of trade, a good ways and means position of Government, strengthening of the country's credit and the Rupee exchange.

While the arguments adduced by Government have much in their favour, it must be admitted that the Government of India have not made any honest attempt to obviate the effects of uninterrupted gold exports. Much of the disgorged gold came from the masses who disposed of their only valuable possessions in gold ornaments for the compelling reason that their economic distress was serious The price of gold is still very high but the rate of export of gold has considerably declined. That means that the gold hoards of the Indian people about which so much has been said have become well nigh exhausted About the argument that the masses derived a good price from their gold, it should be said that any body who has knowledge about rural conditions and the ways of life prevailing there will realize that the little liquid money which they might have received was spent in no time for unproductive purposes. Besides, much of the profits went to the pockets of the middle-men. So the argument of a good price for gold reaped by the people has hardly any basis.

Establishment of the Reserve Bank.—Another important feature of the recent currency policy of India is the establishment of the Reserve Bank in 1935 and its

functioning as the currency and credit authority of India. The Bank was established in 1935 with a share capital of Rs. 5 crores, divided into shares of Rs. 100 each. It is the sole note-issuing authority and also the banker to the Government of India and the Provincial Governments as well as to other banks. As the central bank of India, the Reserve Bank necessarily unifies the functions of controlling currency and credit of the country. No doubt it will tend to avoid any vacillating policy with regard to monetary matters.

Q. 142. Discuss the economic effects of the export of gold in recent years. (B. Com., 1939, 1940.)

See answer to Q. 141

Q. 143. Discuss the advantages or otherwise of the linking of the Rupee with sterling in 1931.

See answer to Q. 141

Q. 144. Write a short note on the repatriation of India's sterling debts accomplished during the war by the Government of India.

One of the most notable financial events of the war was the virtual extrication of India's sterling debt through the process of repatriation. This was made possible on account of the huge accumulation of sterling balances in the hands of the Reserve Bank of India in London

The policy of repatriation started in 1937-38 when the Government of India announced their intention to purchase Indian sterling securities in the open market in small quantities with a view to cancelling them The amount so purchased was about £3 millions. The policy of open-market purchase, coupled with the device of voluntary transfer (From sterling to rupee securities)

was continued and speeded up during the early years of the war.

But repatriation on a large scale was possible only when the Government initiated the compulsory repatriation policy on 8th February 1941. Under extra-ordinary powers vested in His Majesty's Government and the Government of India, holders of terminable sterling loan were compelled to surrender the sterling securities They were paid off in sterling in England by the Reserve Bank out of its sterling assets. But the sterling balances are the property of the Reserve Bank. Hence arose the necessity of replacing the assets of Reserve Bank in India and paying the holders of sterling loan in India. This was done by issuing rupee Counter-parts and adhoc Treasury Bills to the Reserve Bank in India. These rupee Counter-parts were initially held by the Reserve Bank and the Government of India but gradually they were sold to the public. Thus the Reserve Bank carried out the scheme without having to restrict the note-issue. The adhoc Treasury Bills and most of the rupee Counter-parts were later replaced by permanent Loans

The scheme of Compulsory repatriation was gradually extended to non-terminable sterling loans, Railway annuities and railway debentures. With the exception of a negligible amount, almost the whole of India's sterling debt has been repatriated. Even the annual Pension liabilities of the Government of India in terms of sterling have been liquidated by creating a special Fund in London out of the sterling balances.

The effects of the repatriation of sterling loan may be thus summarised :—

1. India's external debt has been replaced by internal debt. An internal debt is almost burdenless, the result has been good for India.

2. India's position in the international Capital market has improved owing to the liquidation of her foreign debt. This will enable India to borrow foreign Capital on favourable terms for industrialising herself.

3. The repatriation of sterling debt had anti-inflationary effects during the war.

4. The pressure on Foreign exchange has been relieved owing to the liquidation of our Foreign debt.

Q. 145. Give an idea about the exchange position during the present war.

Immediately after the outbreak of war, exchange control was introduced. The Central Government promulgated the Defence of India Ordinance, 1939, Part XIV of which contained Financial Provisions, providing, *inter alia*, for (i) restrictions on purchases of foreign exchange, (ii) acquisition by the Central Government of foreign exchange, (iii) restrictions on purchases and export of securities, and (iv) acquisition by the Central Government of foreign- securities. On the 4th September, the Reserve Bank issued an explanatory memorandum to the public giving the general lines of the exchange control instituted in India. All foreign exchange transactions were required to be put through authorised dealers who were to carry out the Reserve Bank's directions regarding the purchase and sale of Empire currencies with the exception of Canadian, Newfoundland and Hongkong dollars, while the purchase and the sale of non-Empire currencies were restricted to genuine trade

purposes, travelling expenses and small personal remittances. Authorised dealers were informed that no business should be done by them except on the basis of the rates quoted by the London Control combined with the current rupee rate of sterling.

Technique of Exchange Management—From October, 1939 onwards, the monetary authorities in India had to make several important innovations in their technique of exchange management. Owing to the difficulty of obtaining cover in London for positions other than spot and the rise in discount rates there, banks were reluctant to do forward business in the first few days of war. The Reserve Bank, therefore, announced on the 3rd October that it would be prepared in future to purchase sterling for forward delivery extending over a period of 90 days at $\frac{1}{32}$d. per month higher than its spot buying rate. This practice was unique in the currency history of the country. Within a week after this announcement, the Reserve Bank raised its buying rates by $\frac{1}{16}$d. both for spot and forward transactions. Immediately, the open market rates also rose by $\frac{1}{16}$d. from 1s. $5\frac{29}{32}$d. to 1s. $5\frac{31}{32}$d. at which level they remained steady till the end of the year. In February 1940, the Reserve Bank decided to buy sterling at 1s. 6d. up to 6 months forward. Owing to freight difficulties, the volume of export bills was not satisfactory during this period, but there was fair business in connection with the export of gold which kept the exchange rates steady. Another indication of the broadening of the functions of the Reserve Bank was provided when on the 16th October the Bank announced that the export of gold

from India to the United States must surrender at least 34 dollars for each five ounce of gold exported. The Bank also announced its readiness to buy dollars for spot delivery whether or not they were the proceeds of gold exports

International exchange situation.—From the 14th September, 1939, the exchange control in London kept the sterling-dollar rate pegged at \$4·02 to 4·04. This rate was slightly altered to \$4·02½ to 4·03½ on the 8th January, 1940. The exchange control in London was prepared to buy dollars in exchange for sterling in unlimited amounts at this rate but was not prepared to sell them except for approved purposes. The holders of sterling balances in London, therefore, who were unable to convert them into dollars in London, sold them in the New York market at a lower rate. Thus, the sterling dollar exchange came to be quoted at different rates in London and New York The exchange control in London had, therefore, to take measures to make official rate effective As the rupee is linked to sterling, the Reserve Bank had also to take similar steps to prevent evasion of control regulations issued in England. On the 9th March, 1940, the Bank announced its scheme for the control of the foreign exchange proceeds of certain exports to the "hard currency" countries. The expression "hard currency" means those currencies which are based on gold or are linked to currencies which are based on gold. The commodities affected were jute. jute manufactures and rubber, the exports of which to the "hard currency" countries were permitted, provided a certificate was furnished from an authorised dealer in India that the

proceeds of the transaction had been disposed of in a manner approved by the Reserve Bank of India. The object of this scheme was to obtain control of the foreign currency proceeds of the export and also to see that full export proceeds of the goods were received. It was laid down that these commodities when exported to the hard currency countries must be financed either (*a*) by bills drawn in the currency of the country of import, (*b*) if the goods were sold on a rupee basis, by rupees laid down by sales of "hard currencies", to authorised dealers in India or London at control rates, or (*c*) if sold on a sterling basis, by bills drawn on London under a credit registered to the Bank of England and containing a clause that the sterling required to meet the acceptances would be provided by sale of foreign currency to the Bank of England at control rates. A fair proportion of India's export trade is financed by Indian shippers drawing bills on the London houses or agents and not under credits and in order, therefore, that the rules might not interfere with long-established methods of finance, special arrangements were made whereby such London Houses were permitted to give general letters of guarantee to the Bank of England undertaking to deliver the foreign currency proceeds of all such shipments to the Bank of England at controlled rates. As these new regulations were liable to lead to an increase in the practice of drawing bills in "hard currencies", the Reserve Bank, in order to meet any possible difficulties that authorised dealers in foreign exchange might have in obtaining cover for their purchases of these currencies, agreed to purchase hard

currencies, both ready and forward, on behalf of Bank of England. (*Review of the Trade of India, 1939-40*)

Q. 146. What are the causes of the accumulation of sterling balances in favour of India? How can India get repayment of these sterling balances? (Cal. B. A. 1945)

India's war expenditure is distributed between the Government of India and His Majesty's Government in the following manner.

The Government of India is to Bear :

1. The basic military budget, i.e., the pre-war military budget.
2. And allowance for increase in prices in the basic military budget.
3. A lump sum of one crore of Rupees.
4. That part of the extra expenditure which is in the interests of India.

The remainder of the war expenditure is charged to His Majesty's Government. The cost of rearing, training and equipping troops so long as they are in India is charged to the India Government. The cost of maintaining these troops when they are fighting overseas is charged to His Majesty's Government.

For that part of the war expenditure which is charged to His Majesty's Government the latter becomes indebted to the Government of India. This debt is accumulating in London in the form of sterling balances. Against these sterling balances notes are being issued in India by the Reserve Bank. With these notes the Government of India is meeting its war expenditure.

These sterling balances have been used in cancelling the pre-war sterling debt of India amounting to £370 millions. The remainder of the sterling balances amount to about Rs. 1,000 crores. Out of this, about Rs 750 crores will have to be repaid by His Majesty's Government.

These sterling balances can be repaid in these ways :—

1. Sending gold from England to India—this is out of the question.

2. Handing over Britain's assets in India, such as shares and property in India to Indians—this is not agreed to by Britain.

3. Sending goods from England to India. Indians have objections to this. With the help of the sterling balances we can by goods more cheaply in America and other countries. Britain may force us to buy consumer goods, e.g. cloth which we want to produce in India.

4. Converting sterling balances into dollars and other foreign currencies and buying goods in other countries. Britain objected to the free conversion of sterling balances into other currencies at Bretton Woods conference. Indian opinion wants this, Lord Wavell has assured us recently that India will be allowed to use the sterling balances in her own best interests. The matter will be settled by agreement between Britain and India.

Q. 147. Describe the causes and effects of war-time inflation in India. (Cal. B Com. 1944).

During the present War India is suffering from the effects of inflation. The note circulation has increased

from less than Rs. 200 crores to more than Rs. 1,000 crores. Bank deposits too have doubled in amount.

The causes of the inflation are as follows. India is making a huge Defence Expenditure on account of the War. A part of this expenditure is met from the Indian budget. But the other part is a liability of the Government of England. On behalf of His Majesty's Government, the Government of India is spending huge sums in this country This money is being issued in the form of notes by the Reserve Bank against sterling balances accumulating in London on account of the indebtedness of His Majesty's Government.

Had the Government of India found all the money it needed through taxes and loans, inflation might have been avoided. But the loan policy of the Government has not been fully successful. All the money cannot be raised through Taxes. The stream of money is increasing; but the supply of goods, especially consumer goods is decreasing. Hence there has been a sharp rise of prices.

The situation has been made worse by the heavy fall of imports from foreign countries. The Government of India has not taken sufficient steps to increase production in India. All this has increased the scarcity of goods.

The effects of inflation have been disastrous. Inflation is a concealed form of Taxation. It has hit the poor and middle class people very hard indeed. Hundreds of thousands of people have died of starvation and disease.

Since 1943 the Government have taken certain steps

which have checked the course of inflation. But still India is suffering acutely. It is note-worthy that there is no inflation in Britain, U. S. A, Canada and even in Germany. There is inflation only in India and in China. Inflation is the result of the failure of British policy in India.

CHAPTER XVI

Prices

Q. 148. What is meant in the language of economics by the price of a commodity? Explain the causes which determine the general level of prices in any country. (B. Com, 1928)

Professor Taussig defines price as the value of a commodity expressed in terms of money. This means that price measures the utility of a certain commodity or commodities to the society at a certain time and under a definite set of conditions. Several factors determine the level of prices and among them the following are the most important :—

(1) The size of the supply of the commodity concerned at a certain time and at a certain place ; and

(2) The intensity of the demand which may prevail at that time and at that place.

If the available supply is very large as compared to the prevailing demand, the price will tend to decline. If on the other hand, the supply remaining the same, the demand enlarges or decreases for any reason, the

price also will tend to increase or decrease as the case may be.

Causes determining the price level—There are various causes which may influence the rise or fall of general prices within a country. The principal causes are :—

(a) Supplies of commodities available. If the quantities of the more important and necessary commodities tend to increase or diminish in comparison with the demand within the country, the general price level will tend to diminish or increase as the case may be.

(b) The general demand in the country. If in comparison to the available supplies of different commodities, the demand shrinks or increases, the price level will tend to decrease or increase as the case may be.

(c) The quantity of money in circulation within the country. If the quantity increases for industrial and trade expansion or for an inflationary policy of the authorities, the general price level will tend to rise.

The general level of prices within a country at a certain time is thus mainly influenced by the inter-action of demand and supply in respect of commodities, while the quantity of money in circulation exercises also an important influence on prices.

The influence of international factors is also no less important, for any increase in demand or decrease in demand in the international market may increase or decrease the price level within the country.

Q. 149. Is there any relationship between wages and prices in India? (B. Com., 1940.)

From the economic standpoint there is a relationship

between wages and the price levels. If price levels rise, there must be a tendency *for* wages *to* rise *also*. *But* in reality wage rates lag behind the price levels. This is the experience even in economically advanced countries where labour is organized and self-conscious. There are good reasons for this, for unless the prices rise appreciably in respect of the essential commodities and unless the rising tendency persists for a reasonably long period, the wage rates do not respond to the rising tendency. Under the capitalistic system of industrial production, the employers also cannot be induced to vary the wage rates during short periods of rise in the price levels. In the case of declining prices also for a short time, the employers may not reduce wage rates easily without provoking serious labour troubles.

This relationship between wage rates and price levels should persist also in India, but since India's labour conditions are more or less backward, the relationship is not so effective as it is in advanced countries like England, America and Japan. Here in India (1) industrial labour is not well-organized for the trade union movement has not fully developed. Necessarily there cannot always be effective demand for a rise in *wage rates in response to rising prices.* (2) The labourers in rural areas, mostly engaged in agriculture, are not at all organized. In their case custom plays a large part in determining wages, irrespective of rising or declining prices.

On the whole it may be stated that although wage rates lag behind prices, the fluctuations in prices, barring those occasions when these are sporadic or short lived,

cannot but influence the rates of wages The effects may not be automatic or proportionate ; but there is a tendency for wages to respond to price levels. The situation in the present war supports the conclusion, for since prices have risen, most organized industries— Railways, Government offices and local bodies have made previsions for war allowances or "dearness" allowances for the low-paid labourers or ministerial staffs. So we cannot say that in the backward economic conditions of India, the relationship between wages and prices is not clear.

Q. 150. Give an idea of the system of price control which has been put into operation during the present war.

At the very outset after the outbreak of the war in September, 1939, a sort of panic was created in the commodity market. The dealers found in it a great opportunity for profiteering, while the consumers, being alarmed at the prospect of a steep rise in the cost of living, attempted to lay up stocks of commodities. Thus a vicious circle set in the form of rising prices and increased hoarding. The rise, was particularly sharp in the case of imported articles like chemicals, patent medicines, tinned provisions, toilet requisites, etc ; while commodities like wheat, grain and sugar, which are derived mostly from domestic sources, also recorded substantial increases. Under the Defence of India Rules the Government had already taken powers to control the rise of prices As a preliminary measure, the Central as well as the Provincial Governments issued warnings against profiteering and requested the public to refrain

from buying excessive supplies. On the 8th September, 1939, the Central Government delegated powers to Provincial Governments to control the prices of such necessaries of life as medical supplies, foodstuffs, salt, kerosine oil and cheaper qualities of cotton cloth, subject to the condition that the maximum prices fixed should not be less than 10% above the prices prevailing on the 1st September 1939 In pursuance of these powers, the Provincial Government and States took immediate steps to check profiteering. In certain Provinces, Provincial Controllers of Prices were appointed and district officers were authorised to act as Controllers of prices in their respective areas Local Advisory Boards were formed to make the control effective in the districts. These measures served to allay the panic, while the threat of further action deterred any attempt at charging exorbitant prices. The situation was thus gradually brought under control.

Second stage of price control policy.—The measures described above were essentially of a temporary character, being intended to meet the emergency created by the rise in prices, but from a long-term point of view, they required further examination. As a first step, therefore, the Government of India issued a Notification on the 29th September, 1939, making important amendments in the instructions issued to the Provincial Governments in the matter of price control under the original notification dated the 8th September. Under the revised instructions, the maximum price fixed for sales by the producers was to be so calculated as to make due allowance for all factors which might have

increased the cost of production, and in the case of imports, the importer was to be allowed to charge his current cost of importation plus the margin which he used to get on the 1st September, 1939. Further, in fixing prices at wholesale or retail stages, each Provincial Government or State was to have regard to the prices fixed for the producer or importer whether in the same Province or State or in another Province or State.

Third stage of price control policy.—The next step was to convene a conference of representatives of Provinces and States to examine the working of the price control measures so far adopted and to consider the lines of future action. The conference, which met on the 18th and 19th of October, 1939, took the view that as agriculture in India had not yet fully recovered from the recent depression, it was undesireable to take further steps to check the rise in the prices of agricultural produce. In principle, they admitted the trader's right to fix his prices on the basis of replacement cost. There was also general agreement as to the inexpediency of utilising the powers of commandeering commodities except in the last resort. It was decided to hold such conferences at an interval of every three months, as they were likely to be of great help in securing uniformity of policy among different Provinces and States. The second Price Control Conference was held in New Delhi on the 24th and 25th January, 1940. The experience of the first five months of war had revealed that isolated action by district officers or Provincial Governments to control prices was likely to lead to unsatisfactory results; and hence the Conference agreed to the desirability of

instituting some machinery for co-ordination. The actual plan which was discussed at the Conference had two main features: One was the creation of a uniform administrative machinery in the Provinces and States, under which each Province and major State appointed a Controller of prices at the headquarters to co-ordinate district action and with this officer there was associated an advisory body of persons concerned with the distribution and production of commodities, the whole organization being designed to be an intermediary, both within the Province and with other Provinces and the Centre. The second feature of this plan was a division of functions between the Centre and the Provinces. It was agreed that if and when the control of prices in the wholesale market became necessary, the task should be assumed by the Centre, while the task of controlling prices in the secondary markets and at the retail stage should be left to the Provinces.

Appointment of Price Advisory Officers.—In January, 1940, the Government of India announced their intention of appointing two price advisory officers, one in Bombay and the other in Calcutta, to watch the situation in the cotton and jute markets. It was the duty of these officers to keep the Central Government fully and constantly informed as to the operations in these commodities so that the Government might have adequate data at their disposal at any time to determine whether or not control was desirable.

No uniform system of price control.—The methods adopted in different Provinces for controlling prices were widely different in character and varied considerably in

scope. In some Provinces, maximum prices were fixed for articles considered essential for the life of the community, while in others, the Government issued warning against profiteering from time to time and generally kept a close watch over the price situation. In most Provinces, the Controllers of prices published, for the guidance of the public, periodical lists of the prices prevailing in their respective areas. Among the various experiments tried by the Provincial Governments for controlling prices, mention may be made of the cheap grain shops opened in Bombay and Surat by the Government of Bombay. Grains for these shops were purchased by the Controller of Prices from wholesale merchants in the city through the agency of a Purchase Sub-Committee. The selling price of grains at Government shops was obtained by adding to the purchase price of the grains the overhead charges incurred in running the shops. The retail prices so arrived at were less than the retail prices in the market.

As the war progressed, more Price Control Conferences were held and there was a gradual tightening of price control accompanied in certain cases with rationing. The sugar control order of April, 1942 appointed a Sugar Controller for India with power to fix ex-factory sugar prices. The cotton cloth and yarn Control order, 1943 was designed to regulate prices of raw cotton and wholesale and retail prices of cloth. The Hoarding and profiteering prevention Ordinance of 1943 sought to regulate the retail prices of a large number of imported consumer goods. The colliery control order of 1944 was designed to regulate the out

put, prices and distribution of coal, food prices were subjected to rigorous control from 1943, the Central Government fixing prices on an all-India basis and the Provincial Government in different centres within the province.

CHAPTER XVII

Famine Unemployment, etc.

Q. 151. Indicate the various stages of famine relief in India and the general plan of work carried out at each system, (B. Com., 1930)

The existing plan of famine relief which the India Government and the Provincial Governments usually follow has a long history behind it. The system has evolved out of many experiments carried out in the past. To refer to the last stage of its evolution, it may be mentioned that in 1901 the last Famine Commission was appointed under the chairmanship of Sir Anthony Macdonell. They suggested several measures for the purpose of "putting heart into the people". Their main proposals were: (*a*) prompt and liberal distribution of takkavi, (*b*) early suspension of land revenue, (*c*) preparation of a full plan of relief. (*d*) constant vigilance, and (*e*) enlistment of non-official help. Further they suggested (*f*) starting of co-operative societies, and (*g*) extension of State irrigation works of a protective nature. The Commission also suggested the device of suitable measures for tackling fodder famine in order to save

cattle. These principles were accepted by the Government of India and codified in order to serve all future needs of the people. Subsequent experience and experiments have revealed that the famine codes thus formulated have stood well the test of time.

Description of relief measures.—There are approximately six stages of relief as defined by the existing Famine Codes. They are as follows :—

(1) Whenever the danger is scented preliminary preparations are started such as collection of information regarding climate, crop conditions, mortality, mapping out of the country in relief circles and keeping ready schemes of relief.

(2) The next stage is heralded by the failure of rains Strict vigilance is kept over the situation and information is gathered regarding public feeling, any increase in crimes such as petty thefts, the extent of public charity, etc.

(3) The third stage is the actual commencement of the work. The Government declare their policy ; officials visit the centres and hold public meetings and seek public donations ; list of helpless people are prepared.

(4) The fourth stage is the first stage of actual relief Test works are started to attract famine-stricken labourers.

(5) Central Relief Camps are opened and relief is imparted to the helpless. Village kitchens are started for the benefit of the children while poor houses are opened in towns.

(6) The last stage of relief work starts with the commencement of the monsoon.

Gradually large relief works are closed. In order that the people may go back to carry on their normal work of cultivation, liberal advances are made to the cultivators in order to enable them to purchase cattle, ploughs, etc. With the coming of the Autumn while crops begin to ripen, the relief measures practically come to a close.

Q. 152. Analyse the causes of middle class unemployment and suggest remedies thereof.

Ans : The problem of unemployment among the middle class educated youths has become very serious in recent years. Because the problem is very extensive, it has attracted wide attention and discussions in the country. The basic factors which are responsible for this widespread socio-economic problem may be summarised as follows :—

(a) *Excessive growth of population*—During the last two decades the population in India has grown by 377 lakhs, *e. g.* by 11·9%, while in Bengal population has grown by 46 lakhs, *e. g.* by 10·1%. This increase in population has not been accompanied by corresponding expansion of economic opportunities in the country.

(b) *Inadequate growth of economic opportunities*—In comparision with the growth of population, the economic opportunities in the country in trade, industry, commerce and agriculture have not proportionately increased, with the result that there are more youngmen seeking employment than there are opportunities to absorb them.

(c) *Inappropriateness of the prevailing educational system* :—Since the western system of education was introduced in this country, people have all along shown

a general tendency towards general higher education. A certain degree of general education was also considered essential for securing services in Government offices and jobs in merchant offices. The lure of Government jobs and lucrative opportunities in liberal profession have all along attracted the bulk of the youngmen with the result that gradually all these lines have become crowded. Government departments do not offer many increasing opportunities in proportion to the number of youngmen passing every year out of the Universities. Necessarily a stage has now been reached when it is found that general education as imparted by Colleges and Universities has only created thousands of educated youngmen for whom there are not enough opportunities in Government services, mercantile firms and liberal professions. They do not possess such technical qualifications as would enable them to take to some technical lines. The society is thus confronted with a twofold problem, namely, (i) how to find openings for the educated youngmen who have just received a general education, and (ii) how to evolve a system of education under which students may be given a training that will eventually help them in securing suitable jobs in appropriate lines of occupations

The remedies—Although the causes of the widespread unemployment problem among the educated middle classes can be summed up in this manner, it should be remembered that they are inter-connected and unless there is a harmonious development of economic opportunities and of a suitable system of education, no tangible or effective solution of the problem can possibly

be found out. We may enumerate here some of the remedies to the problem.

(a) *Progressive industrialization of the country.*—There is no doubt about the fact that India is industrially still very backward The total number of industrial workers in India hardly exceeds 16 lakhs. Except in a few lines, like cotton textile industry, tea, coal, iron and steel etc., industrial progress is on the whole inadequate and unsatisfactory So if there is a planned and progressive industrialization in the country, the youngmen of the country will find an expanding scope for employment in various industrial lines.

(b) *Expansion of trade and commerce*—With the progress of industries, trade and commerce are bound to expand and thus offer increasing opportunities for educated youngmen. Looking at the problem from a provincial point of view, it may be suggested that as non-Bengalees predominate in many spheres of trade and commerce, the Bengalees occupy a meagre share in them. If, however, by superior competition, the Bengalees can gain a footing in those spheres, then the scope for employment may to some extent be widened.

(c) *Improvement and diversification of cottage industries*—Already cottage industries provide a livelihood, although precarious, to many lakhs of people in India But since their conditions are very miserable, the scope for educated youngmen in them is very meagre and whatever scope there was, is being now narrowed day by day. The urgent need of the hour is to resuscitate these industries by the improvement of their productive technique, marketing organization and

financial facilities. New designs are called for in order to serve the changing fashions of the society. Hence the need for bringing in to the cottage industries new talents and new enthusiasm is very urgent. The age-old methods and conservative habits of the cottage workers have blocked progress in many cases and the sooner they are remodelled, the better will it be for the masses. Cottage industries can serve not only as whole time occupations to many but also as subsidiary means of livelihood to thousands. The existing cottage industries are to be revitalised and along with them new industries on cottage basis should also be started. Thus alone the expansion of the scope for the employment of our youngmen may be possible.

(d) Improvement of agriculture :—That in agriculture also there may be some scope for employment of the educated youngmen is often forgotten. The introduction of better farming methods, cultivation of new crops, running of poultry farms, orcharding, gardening etc, are possible lines of work which youngmen with technical training and initiative may take up with profit.

These are some of the methods which may be tried for minimizing the effects of unemployment. Since this is a very complex problem, it is hardly possible for combating it by a single remedy. Its solution depends on a variety of economic and social factors. An analysis of the problem and what the State can possibly do is given below.

Analysis of the problem of unemployment :—"One must bear in mind that unemployment is not a problem

in itself but an aspect of a much wider question of maladjustments in the economic system. These maladjustments may arise from such causes as decline in pricess shrinkage in demand or other changes in production, which in their turn may be governed or caused by such factors as changes in rates of interest, new inventions and discoveries, government policies, etc. It should, therefore, be evident that as economic conditions or stages of economic development differ from country to country, the problem of unemployment cannot also have the same connotation and denotation in all countries. For this reason, those who advocate the adoption of remedial or relief measures adopted in other countries, as for example, the method of unemployment insurance, which is in vogue in Western countries, apparently do so without giving much thought to the material difference in the character of unemployment in India and in the West. The conditions of employment in the highly industrialized countries are different in many essential respects from those prevalent in this country. The problem in Western countries is largely one of industrial unemployment and the unemployment is also generally temporary in character, being the result of cyclical trade and industrial depressions. Only in recent years were these countries presented with a comparatively larger body of permanently unemployed persons as a result of the Great Depression.

All the Governments, however, bestowed their serious thoughts on this problem and instituted various measures for tackling it, of which the most important has been public works expansion. War clouds and the demands

of a rearmament programme have since then effectively resolved the problem of unemployment in most of these countries. However, speaking generally, it may be stated that in these countries the problem has mostly been to find employment or relief for those workers who previously had employment, but were unfortunately thrown out of job. But in India, in Bengal in particular, the problem is more or less of a permanent character, because the unemployment arises as a result of certain socio-economic maladjustments. The problem is to find careers for youngmen who are employable, but have not had any employment at all The problem arises because trained and educated young men are coming out of the universities in increasingly larger numbers, but our economic structure and organisation and public administration have not developed and progressed at an equal pace so as to be able to absorb many of them.

As for a solution of this complex problem of unemployment in the country, there can obviously be no single specific remedy. If there be any attempt to resolve it, it should necessarily comprise a series of attempts, for otherwise the ramifications of the problem in many spheres will remain unmapped and untouched, and consequently the solution of the problem will be partial and fragmentary and not radical or thorough.

What the State can do—In many of the civilised countries of the West industrialisation has reached its highest peak and developmental activities of the State have progressed very much farther than in backward countries like ours. Looking at things exclusively from the point of view of facility for tackling the problem of

works in which much may be done. National defence work, it appears, must now and in future be considerably extended and intensified. And a comprehensive programme of defence work and the trades and industries that must develop as its ancillaries, will no doubt open out new vistas of employment to not only educated youths but also to many other sections of our people. The scope for the extension of public utility services, like electricity, telephone etc., is, again, immense. To the extent that we progress in each and all of these lines, we would correspondingly facilitate the task of providing employment to our youths and absorbing larger numbers in useful occupations. On the other hand, as agriculturists benefit by the various services and amenities provided to them, as their lands yield more products and of better quality, as they are put in possession of increased and increasing purchasing power, the benefits of that larger purchasing power and consequently larger spending both on goods and services cannot but have salutary and strengthening effects over all sections of the community, including the educated middle-classes."

(From a speech delivered by Mr. N. R. Sarker at Presidency College, Calcutta)

Q. 153. What were the causes and effects of the great Bengal Famine of 1943. (Cal. B. Com. 1944.)

Ans :—The chief cause of the famine of 1943 was the yield of the Aman crop of 1942 and the low carry-over from previous years. The shortage of rice was aggravated by the cessation of rice imports from Burma. The

demands of Ceylon, Travancore, Cochin and Western India normally met from Burma were diverted to the main markets in the rice producing areas of India. The situation in Bengal had been much affected by the disastrous cyclone that swept the four surplus rice producing areas in October 1942—Midnapore, 24 Parganas, Barisal and Dinajpore. The air raids that came at the end of 1942 worsened the Bengal situation by increasing general panic There was a great deal of hoarding in Bengal on the part of the peasants, the consumers and the traders. The marketable surplus of rice in Bengal decreased sharply on account of smaller production, hoarding, and increased consumption by the cultivators themselves The situation could be tackled only by ensuring proper distribution of the marketable surplus in Bengal and by bringing rice and wheat from outside the province. The distribution of rice in Bengal failed miserably owing to the inefficiency of Bengal Government in controlling prices and ensuring supplies of rice to the deficit areas. Hoarding and Profiteering on the part of traders took place on an enormous scale The Government's rice purchasing agents were themselves among the worst hoarders. The Government's policy vacillated between free trade and control. The Government of Bengal tragically failed to realise the situation and declare a famine until it was too late. They rather told the people that in fact there was no real rice scarcity and no chance of a widespread famine. The Woodhead Commission has held that Central Government's denial policy and their refusal to stop the export of rice until it was too late were contributory causes of the famine.

Besides the Central Government inspite of many food conferences committed a great delay in the establishment of a system of planned movement of food supplies from surplus provinces and states to deficit provinces and states. The failure of the administrative machinery led to many more deaths than would have taken place on account of shortage of rice alone. The price of rice rose to fantastic heights and it was this high price which made the poor peasantry unable to buy rice. The Woodhead Commission has calculated that extra profits made by the rice traders during the famine amounted to Rs. 150 Crores. Every death in famine was balanced by roughly a thousand rupees of excess profits.

According to the Woodhead Commission about 1½ million died as a result of the famine. According to non-official calculations made by the Calcutta University the death roll amounted to 3½ millions. In the wake of the famine Cholera, Malaria and other epidemics came and carried away hundreds of thousands Thousands of peasants sold their lands to money lenders. The entire village economy of Bengal was ruined. The effects of the famine still continue. The half-hearted measures of rehabilitation introduced by the Bengal Government have proved quite inadequate.

The Gregory Committee on food supply made the following recommendations :—

(1) India must cease, for the duration of the war, to be a net exporter of food.

(2) The Government of India should (a) press for imports to create a Central food grains reserve, which

should not be less than 500,000 tons. (b) Press the *United Nations to arrange for imports of 1 million tons* of foodstuffs for current consumption.

(3) Complete central control over procurement and distribution.

(4) Consumers' goods, agricultural implements and if necessary, precious metals should be made available to cultivators in order to induce them to part with their hoards and also to increase their production capacity.

(5) Rationing should be introduced forthwith in the large cities of India, both in deficit and surplus areas.

The committee also recommended the immediate adoption of all practical measures for making the "Grow more food" campaign a success. The adoption of these measures, the enforcement of the Government of India's Basic Plan of food supply, a bountiful Aman crop in 1943 and the vigorous administration of Lord Wavell suceeded in checking the famine towards the end of 1943.

The *main recommendations* of the Woodhead commission in regard to the system to be followed in the *supply and distribution of food for the prevention of* another famine are :—

(1) The rationing of towns with a population of about 25,000 or more should be carried out as quickly as possible.

(2) Immediate steps should be taken to review licences issued since May, 1943 under the food grains

control order and to remove from the register of licences persons who are not traders by profession.

(3) Cultivators holding land exceeding a prescribed acreage limit should be brought within the scope of the food grains control order. A limit of 25 acres is suggested

(4) Embargoes round the surplus districts should be effectively enforced.

(5) Requisitioning should be undertaken, as and when necessary, from traders and large producers, if the flow of supplies is not maintained by voluntary sales.

(6) An official procurement agency should be established in place of the present system of procurement through chief agents chosen from the trade. The system of monopoly procurement should be gradually introduced.

(7) The respective function of District Magistrate and Deputy Director of Civil supplies in regard to the procurement and distribution of supplies and the enforcement of controls should be clearly defined.

(8) Vigorous action against corruption is necessary.

(9) A provincial food Advisory committee composed of officials and non-officials, District Advisory committees and an Advisory committee for Calcutta should be set up.

regular and sufficient quantities ; (2) facilities for marketing the products at profitable rates ; (3) provision for technical training ; (4) processing of raw materials or finished goods wherever necessary. In the post-war period, the shortage of consumption goods is likely to continue. Owing to the difficulty of importing capital goods, the factory industries are not likely to expand rapidly during the immediate post-war period. Thus there are great possibilities of developing cottage industries if state assistance is given in respect of finance, marketing, organisation, education and propaganda.

3. Examine the main drawbacks of industrial labour in India Suggest measures for removing these drawbacks (See answer to Q. 72)

4. Discuss the causes of agricultural indebtedness in India.

Give a brief account of the measures which have been adopted in Bengal and Assam to deal with this matter. (See answer to Q 39)

5. Briefly examine the financial resources of the Central Government and the Provincial Governments in India. (See answer to Q. 103)

6. Discuss the causes and effects of the recent famines in Bengal. (See answer to Q. 153)

7. Examine the effects of the railway freight rates on the industry and trade of India. (See answers to Q. 77 and Q 79)

8 Discuss the causes and effects of the accumulation of India's sterling balances. Can you suggest any methods for the utilisation of these balances ?

Ans. The accumulation of sterling balances in favour of India during the war was due to several causes : (1) war purchases made by His Majesty's Government in India ; (2) the financial Settlement of 1939 in terms of which a certain portion of the war expenses of the Government of India was recoverable from Britain ; (3) the existence of the Empire Dollar Pool through which India's dollar dues from the U. S A. were converted into blocked sterling ; (4) India's favourable trade balance during the war. Against sterling credited to the account of the Reserve Bank of India in London, the Reserve Bank issued paper currency in India thus supplying the necessary rupee finance for meeting the war expenses and the war purchases of His Majesty's Government.

The effects were disastrous. The accumulation of sterling balances was the direct cause of the inflation in India. The results were a sky-rocketting of prices, all-round scarcity and rapid increase of prices, acute misery of the people and the outbreak of the Bengal Famine. But out of evil has come out some good. India's sterling debt has been entirely repatriated. India has passed from the status of a debtor country to that of a creditor country.

The sterling balances amount to about Rs. 1400 crores. They represent the savings of the Indian people which they have accumulated by paying out their blood, sweat and tears But the sterling balances are blocked assets. The problem is to recover them to the last pie British public men have often claimed that the sterling balances could be scaled down on the ground that Britain should not be made to shoulder so large a portion of

India's war bill. There was some reference in the Anglo-American Loan Agreement to the necessity of scaling down the sterling balances owed by Britain. This has caused some amount of alarm in India. Indian opinion points out that the Financial Agreement unduly favoured Britain, that the expenses of the so-called joint war measures were unjustly put on the shoulders of India and that Britain made her war purchases at controlled rates in India which were much lower than the actual rates. Thus India must get back her sterling balances in full Repudiation of a part or the whole of the sterling balances will be a grave breach of faith on the part of Britain

The sterling balances should be utilised in the purchase by India of the Capital goods that she needs for developing her industry and agriculture. Britain must not be allowed to dump "shiploads of aspirin" into the Indian market in payment of her debt to India. India must choose the goods that she will buy and must also choose the markets in which to buy the goods. This means that there must be some arrangements to convert the sterling balances into dollars for enabling India to finance her purchases in the American market with the help of the sterling balances. At Bretton-Woods, India's proposal to entrust the I. M. F. with the management of the sterling balances was turned down on the ground that the conversion of a large part of the sterling balances into dollars in any one year will dislocate the foreign exchanges and will seriously jeopardise international equilibrium. It will be best if Britain, America and India enter into a tripartite agreement whereby Britain

will accept the responsibility for meeting the cost of India's purchases in America and will liquidate this responsibility gradually over a number of years, according to a definite plan.

9. What are 'death duties'?

Discuss the arguments for and against the imposition of these duties in India.

Ans. Death duties are taxes on property levied on a progressive scale after the death of the owner and payable by the successors to the property. These duties are also known as succession duties, estate duties and inheritance taxes. Death duties are now to be found as *a feature of the tax system of every important country.* In India it has been proposed to levy an Estate Duty on succession to non-agricultural property which will be levied by the Central Government and handed over to the Provincial Governments.

The *arguments for the imposition of the duty are the* following: (1) it will be an important source of revenue to the Government; (2) it will reduce the alarming inequalities in wealth which constitute such an ugly feature of Indian Society; (3) it will be a progressive tax which will fall on the rich propertied classes who are taxed more lightly in India than in any other advanced country; (4) it will enable the Government to spend more money for the benefit of poorer people than causing a rise in their standard of living which is the basic condition of economic progress in India.

The arguments against the imposition of the duty are the following: (1) unless the Provincial Government impose succession duties on agricultural property, it will

be inequitable to tax only one class of property owners, viz. inheritors of non-agricultural property ; (2) under the Mitakshara law of inheritence in India, the son becomes successor and co-sharer of property as soon as he is born, thus the problem of improving succession duty becomes extremely complicated ; (3) property may migrate to the Native States unless steps are taken to prevent it ; (4) in case of agricultural succession duties, there must be inter-provincial agreement ; otherwise the same property may be taxed twice and property may migrate from the province with a higher death duty to a province with a lower or no death duty ; (5) inter-provincial ágreement is also needed to differenciate whether origin or residence is to be the basis of the distribution of the tax, (6) if the tax is steeply progressive than the will to save may be affected.

Calcutta University Questions,
B A. Pass, 1946

1. State briefly the chief causes of the low productivity of agriculture in India. (See answer to Q. 15).

2. Discuss the importance of cheap electric power to rural development.

Ans. 'Electricity for the millions'—that should be our slogan in India. Real India lives in the 7 lakh villages. The face of India would be changed, if these 7 lakh villages could be electrified. The existence of cheap electric power would immensely increase the possibilities

of tube-well irrigation in India. The problems of drainage, conservancy and transportation would be easier to solve. The cottage industries would enjoy the advantages of cheap power that are now available only in a few over-crowded cities and their suburbs. The cost of production of these industries would be cheapened. Indeed cheap mechanical power, the introduction of small and medium-sized machines suitable for cottage industries and the organisation of financing and marketing facilities will wipe out all the present disadvantages of cottage industries and enable them to hold their own against the factory industries. Industry would be decentralised. Every village would be a small-sized model town, a place of livelihood and culture, marked by economic freedom, political liberty and social-enlightenment.

3 What are the main sources of capital supply to *organised industry in India ?* *(See answers to Q. 97 and Q 98.)*

4 Estimate the importance of an adequate road system to Indian economy. (See answer to Q 76).

5 Discuss briefly the causes and effects of the recent famine in Bengal. (See answer to Q. 153).

6. Why have prices risen since the beginning of the war which is just over ? What steps have been taken to check this rise of prices ? (*For the* causes and effects of war-time inflation, see answer to Q. 147).

Steps taken to check rise of prices : The Government of India have taken the following measures to fight inflation and to check the war-time rise of prices :

(1) Measures of price control such as the Hoarding and Profiteering Prevention Ordinance, Cotton Cloth and Yarn Control Order and Drug Price Control ; (2) Introduction of rationing in towns in respect of rice, wheat, mustard-oil, kerosine and cloth ; (3) Imposition of a more effective control over the supply and distribution of essential articles ; (4) Prohibition of forward trading in bullion, cotton and share market ; (5) Restriction and Control of capital issues ; (6) A more determined drive against hoarders, profiteers and black-marketeers ; (7) Increased taxation, collection of income tax in advance and a more efficient borrowing programme :

Though these measures succeeded in stemming the upward surge of prices and stabilising them, yet the root cause of inflation remained, viz the issue of notes in India against the accumulation of sterling balances in London.

7. Should Public Utilities like, for example, the Calcutta Tramways be owned and operated by the State ? Or, should they be left to private enterprise ? Give reasons for your answer ?

Ans *The case of state ownership and management of Public Utility concerns :* (1) They are monopolistic concerns ; private companies are likely to exploit these monopolies for making high monopoly profits ; hence it is desirable that they should be owned and managed for the public good. (2) It is the franchise granted by the State that gives the Public Utility concern its right of way and its monopolistic rights. The profit making possibilities are due to the growth of population and the general industrial progress of the locality. The State

should not allow a private company to reap benefits of public franchise and general social progress for making private profits in an unrestricted manner (3) The State in fact always imposes some control over the rates and profits of public utility concerns. The system of dual control does not produce happy results. Hence these industries should be nationalised or municipalised. (4) Under state ownership, the Public Utility concerns would look more to the welfare of the people. They are vital to the lives, well-being and happiness of the people. (5) In India an additional reason for public ownership is the existence of European capital with its vested interests in the public utility concerns like the Calcutta Tramways.

The case against the public ownership and management of Public Utility concerns :

(1) The State management would be dilatory, bureaucratic and efficient, (2) The public officials may be corrupt ; nepotism and jobbery might be increased if the State or Municipal Corporation took charge of public utility concerns

Modern opinion is in favour of entrusting public utility concerns to State ownership and management

(8) Describe the main features of the Ryotwari system of Land Tenure and compare them with those of Permanent Settlement in Bengal. (See answer to Q. 31).

9 What are the chief defects of the Indian economy which may be removed by Planning ? (See answers to Q 65 and Q 67).

10. Briefly describe the main sources of tax revenue of the Central and the Provincial Governments in India. (See answer to Q. 103).

Probable Questions on B. Com. Indian Economics, 1947.

1. Give an account of the chief mineral resources in India. (See answer to Q. 1.)

2. What is the economic importance of the monsoons ? (See answer to Q. 3.)

3. Examine and compare the relative features of the Permanent Settlement of Bengal and the Ryotwari system. (See answer to Q. 31)

4. Discuss the causes and remedies of sub-division and fragmentation of holdings in India. (See answer to Q. 26.)

5. Discuss the ways in which organised industry secures capital in India. Point out its difficulties in this connection and suggest remedies. (See answers to Q. 97 and Q. 98.)

6. What are the chief defects of the Managing Agency system ? What steps have been taken to remove them ? (See answer to Q. 66)

7. What are exchange banks ? Point out how they finance over export and import trades and discuss the grievances of Indian businessmen and banks against the exchange banks. (See answers to Questions 93, 94 and 95.)

8. Give an account of the functions of the Reserve Bank of India. (See answer to Q. 101.)

9. What are the principal defects of joint-stock banking in India? What reforms have been suggested to remedy them? (See answer to Q. 102.)

10. Examine the working of the Sterling Exchange Standard in India? (See answer to Q. 141.)

11. Discuss whether the present rupee sterling ratio of 1s. 4d. should be changed. Would you advocate devaluation of the rupee? (See answer to Q. 135 and also the answer given below.)

12. Discuss the present position of the jute or the cotton textiles industry in India. (See answer to Q. 64.)

13. Write a short account of the public debt of India laying stress on the repatriation of India's sterling debt. (See answer to Q. 120 and Q. 144.)

14. Discuss the causes of the war-time rise of prices in India. What steps were taken by the Government of India to check the rise in prices? (See answer to Q. 147 and also answer to Q. 6 (B. A. Pass, 1946) in the Appendix.)

Answer to Q. 11. Devaluation of the Rupee: Owing to war-time inflation the internal value of the rupee has depreciated greatly but its external value has remained the same as in pre-war years, viz. 1s. 6d. The maintenance of this ratio is one of the statutory duties of the Reserve Bank of India. It may, therefore, be considered reasonable that the rupee should be devaluated and given a lower sterling value in order to bring the external value of the rupee in parity with its external value. But the present world price level is

not likely to be stable If the sterling decreases in value owing to a rise in the English price level, the present sterling value of the rupee may not be very far from parity This will specially be the case if there is some fall in prices in India which is quite likely. Of course, a considerable deflation of prices in India is not desirable. There are some who advocate overvaluation of the rupee in order to bring about deflation. This will be a suicidal course and will cut at the roots of industrial progress in India. With an overvalued rupee we may purchase capital goods in foreign goods on advantageous terms. But if there is deflation, then industries in India will suffer from depression which will more than outweigh the advantages of cheap machinery. But we may not go to the other extreme and advocate devaluation. At the present value, the rupee will not exercise a deflationary effect and may not be out of parity when price in India and abroad get stabilised. Thus in the present state of uncertainties, the rupee should be kept at its present value and we should watch the future developments in world price trends.